NEW ISSUE
BOOK-ENTRY ONLY

RATINGS: Standard & Poors: A-
Fitch: A-
(See "RATINGS" herein)

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2006A Bonds (as defined herein) is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2006A Bonds. This opinion is based on certain certifications, covenants and representations of the Authority (as defined herein) and the Borrower (as defined herein) and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2006A Bonds is exempt from income taxation in the State of Indiana for all purposes except the Indiana financial institutions tax. See "TAX MATTERS" and APPENDIX D herein.

$15,000,000
Indiana Health and Educational Facility Financing Authority
Hospital Revenue Bonds, Series 2006A
(Jackson County Schneck Memorial Hospital Project)

Dated: Date of Delivery **Due: February 15, as shown below**

The Series 2006A Bonds will be issued only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 2006A Bonds will be made in book-entry only form, in the denomination of $5,000 or any whole multiple thereof. Purchasers of beneficial interests in Series 2006A Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Series 2006A Bonds. Interest, together with the principal of and redemption premium, if any, on the Series 2006A Bonds, will be paid directly to DTC by The Bank of New York Trust Company, N.A., as trustee (the "Bond Trustee"), so long as DTC or its nominee is the registered owner of the Series 2006A Bonds. The final disbursement of such payments to the Beneficial Owners of Series 2006A Bonds will be the responsibility of the DTC Participants and the Indirect Participants, all as defined and more fully described herein. See "BOOK-ENTRY ONLY SYSTEM" and "SERIES 2006A BONDS."

The Indiana Health and Educational Facility Financing Authority (the "Authority") will issue its Hospital Revenue Bonds, Series 2006A (Jackson County Schneck Memorial Hospital Project) (the "Series 2006A Bonds"), under a Trust Indenture between the Authority and the Bond Trustee dated as of May 1, 2006 (the "Bond Indenture"). The Series 2006A Bonds will be special and limited obligations of the Authority, payable solely from and secured exclusively by the revenues and funds pledged thereto under the Bond Indenture, including amounts payable by The Board of Trustees of Jackson County Schneck Memorial Hospital (the "Borrower") under a Loan Agreement between the Authority and the Borrower, dated as of May 1, 2006 (the "Loan Agreement") and a Series 2006A Note (the "Series 2006A Note") issued by the Borrower to the Authority under a Master Trust Indenture between the Borrower and The Bank of New York Trust Company, N.A. (successor to Jackson County Bank), as trustee (the "Master Trustee"), dated as of November 1, 1991 (the "Original Master Indenture"), as previously supplemented and amended and as further supplemented and amended by Supplemental Master Indentures No. 3 and No. 6 between the Borrower and the Master Trustee, dated as of May 1, 2006 (such Original Master Indenture, as so supplemented and amended, the "Master Indenture"). See "SECURITY AND SOURCE OF PAYMENT."

Interest on the Series 2006A Bonds will accrue from the date of their delivery, and will be payable on February 15 and August 15 of each year, commencing August 15, 2006, at the rates per annum set forth below. The Series 2006A Bonds will mature on February 15 of the years and in the principal amounts set forth below.

Amount	Coupon		Price	CUSIP
$6,475,000	5.250%	Term Bond due February 15, 2030	102.282%	45479R AJ 6
$ 770,000	5.000%	Term Bond due February 15, 2030	100.000%	45479R AL 1
$7,755,000	5.250%	Term Bond due February 15, 2036	101.896%	45479R AK 3

The Series 2006A Bonds are subject to redemption prior to maturity as described herein. See "SERIES 2006A BONDS—Redemption."

The Series 2006A Bonds do not represent or constitute a debt of the Authority, the State of Indiana (the "State") or any political subdivision thereof within the meaning of the provisions of the Constitution or statutes of the State or a pledge of the faith and credit of the Authority, the State or any political subdivision thereof, nor are holders of the Series 2006A Bonds granted the right to have the Authority, the State or any political subdivision thereof levy any taxes or appropriate any funds for the payment of the principal thereof or the interest or any premium thereon. The Authority has no taxing power. See "SECURITY AND SOURCE OF PAYMENT."

There are risks associated with a purchase of the Series 2006A Bonds. See "BONDHOLDERS' RISKS."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2006A Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, the Attorney General of the State of Indiana, Indianapolis, Indiana, for the Borrower by its counsel, Montgomery, Elsner & Pardieck, LLP, Seymour, Indiana, and for the Underwriters by their counsel, Krieg DeVault LLP, Indianapolis, Indiana. It is expected that the Series 2006A Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about June 1, 2006.

Piper Jaffray & Co.

CITY SECURITIES CORPORATION

The date of this Official Statement is May 16, 2006

REGARDING THE USE OF THIS OFFICIAL STATEMENT

IN CONNECTION WITH THE OFFERING OF THE SERIES 2006A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2006A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE AUTHORTY, THE BORROWER OR THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAW AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, AND THERE SHALL NOT BE ANY SALE OF THE SERIES 2006A BONDS, BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE BORROWER SINCE THE DATE HEREOF.

NEITHER THE AUTHORITY, ITS COUNSEL NOR ANY OF ITS MEMBERS, AGENTS, EMPLOYEES OR REPRESENTATIVES HAS REVIEWED THIS OFFICIAL STATEMENT OR INVESTIGATED THE STATEMENTS OR REPRESENTATIONS CONTAINED HEREIN, EXCEPT FOR THOSE STATEMENTS RELATING TO THE AUTHORITY SET FORTH UNDER THE CAPTIONS "AUTHORITY" AND "LITIGATION—Authority." EXCEPT WITH RESPECT TO THE INFORMATION CONTAINED UNDER SUCH CAPTIONS, NEITHER THE AUTHORITY, ITS COUNSEL NOR ANY OF ITS MEMBERS, AGENTS, EMPLOYEES OR REPRESENTATIVES MAKES ANY REPRESENTATION AS TO THE COMPLETENESS, SUFFICIENCY OR TRUTHFULNESS OF THE STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. MEMBERS OF THE AUTHORITY AND ANY OTHER PERSON EXECUTING THE SERIES 2006A BONDS ARE NOT SUBJECT TO PERSONAL LIABILITY BY REASON OF THE ISSUANCE OF THE SERIES 2006A BONDS.

THE SERIES 2006A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE BOND INDENTURE AND MASTER INDENTURE HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BORROWER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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Indiana Health and Educational Facility Financing Authority
Hospital Revenue Bonds, Series 2006A
(Jackson County Schneck Memorial Hospital Project)

INTRODUCTION

The description and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. See APPENDIX C for definitions of certain words and terms used herein.

Purpose of Official Statement

The purpose of this Official Statement, including the cover page and the Appendices hereto, is set forth information in connection with the offering of $15,000,000 aggregate principal amount of Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2006A (Jackson County Schneck Memorial Hospital Project) (the "Series 2006A Bonds"), to be issued by the Indiana Health and Educational Facility Financing Authority (the "Authority"). Certain terms used herein are defined in APPENDIX C hereto.

Authority

The Authority was established on May 15, 2005, as the successor to the Indiana Health Facility Financing Authority (the "IHFFA"), which was created in 1983 pursuant to the provisions of Indiana Code 5-1-16, as amended (the "Act"), and is organized and existing under and by virtue of the provisions of the Act, as a public body politic and corporate, not an agency of the State of Indiana (the "State"), but an independent public instrumentality exercising essential public functions. Under the Act, the Authority is authorized to make loans to "participating providers" (as defined in the Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of "health facility property" (as defined in the Act). See "AUTHORITY."

The Series 2006A Bonds will be issued by the Authority pursuant to the laws of the State of Indiana (the "State"), including particularly the Act, and a Trust Indenture by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Bond Trustee"), dated as of May 1, 2006 (the "Bond Indenture").

Borrower

The Board of Trustees of Jackson County Schneck Memorial Hospital (the "Borrower") is a body corporate and politic organized and existing under the laws of the State, including Indiana Code 16-22, as amended. The Borrower operates Jackson County Schneck Memorial Hospital, d/b/a Schneck Medical Center, an acute care hospital located in Seymour, Indiana (the "Hospital"), which is the county hospital in Jackson County, Indiana (the "County").

For further information concerning the Hospital, see "APPENDIX A—Jackson County Schneck Memorial Hospital."

Project

The Authority will loan the proceeds from the sale of the Series 2006A Bonds to the Borrower under a Loan Agreement between the Authority and the Borrower, dated as of May 1, 2006 (the "Loan Agreement"). The Borrower will use such proceeds, together with the proceeds of the Series 2006B Bonds (as defined herein) and

other moneys of the Borrower, for the purpose of (a) financing, reimbursing or refinancing all or a portion of the cost of the acquisition, construction or installation of an approximately 84,000 square foot addition to the existing hospital facility, including (i) demolition of a portion of the existing facility, and (ii) construction of a south wing to house expanded emergency department and diagnostic imaging facilities (including the purchase of a new CT scanner) and a new patient entrance; (b) expansion and reconfiguration of parking facilities; (c) renovation of approximately 90,600 square feet of existing space, including renovation of in-patient areas to allow for private rooms; (d) funding the Debt Service Reserve Fund; and (e) paying costs of issuing the Series 2006A Bonds (collectively, the "Project"). See "APPENDIX A—Jackson County Schneck Memorial Hospital," "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS."

Series 2006A Bonds

The Series 2006A Bonds will be issued as fully registered bonds in the denomination of $5,000 or any whole multiple thereof. The Series 2006A Bonds will mature on the dates and in the principal amounts set forth on the cover page hereof, and will bear interest from their date of delivery, payable semi-annually on February 15 and August 15 of each year, commencing August 15, 2006, at the rates per annum set forth on the cover page hereof. See "SERIES 2006A BONDS—General."

The Series 2006A Bonds are subject to optional redemption prior to maturity in whole or in part. The Series 2006A Bonds are subject to mandatory sinking fund redemption. The Series 2006A Bonds are also subject to special optional redemption from amounts derived from insurance or condemnation awards in whole or in part in case any Operating Assets (as hereinafter defined) of the Obligated Group are damaged, destroyed or condemned. Notice of redemption will be sent by first class mail not less than 30 days nor more than 60 days before the redemption date to each owner of a Series 2006A Bond to be redeemed. See "SERIES 2006A BONDS—Redemption."

The Series 2006A Bonds may be transferred or exchanged only upon the bond register maintained by the Bond Trustee. See "SERIES 2006A BONDS—General." The Series 2006A Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. See "BOOK-ENTRY ONLY SYSTEM."

Security

THE SERIES 2006A BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE BOND INDENTURE. THE SERIES 2006A BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE, OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY, AND THE SERIES 2006A BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY LEVY ANY TAXES OR APROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER. See "SECURITY AND SOURCE OF PAYMENT."

The Borrower has entered into a Master Trust Indenture dated as of November 1, 1991 (the "Original Master Indenture"), with The Bank of New York Trust Company, N.A. (successor to Jackson County Bank), as trustee (the "Master Trustee"), as previously supplemented and amended and as supplemented by Supplemental Master Indenture No. 3, dated as of May 1, 2006 (the "Series 2006A Supplemental Indenture") and Supplemental Master Indenture No. 6, dated as of May 1, 2006 ("Supplemental Indenture No. 6") (such Original Master Indenture, as so supplemented and amended, the "Master Indenture"), under which the Borrower and any other entities electing to become issuers (each an "Obligated Issuer") under the Master Indenture (collectively, the "Obligated Group") may issue obligations in order to finance activities of the Borrower and such other Obligated Issuers, respectively. While the Borrower and any future members of the Obligated Group will be jointly and severally liable for the

repayment of all obligations issued under the Master Indenture, each Obligated Issuer will be the principal obligor on obligations issued on its behalf under the Master Indenture. Any entity, however, for which obligations are issued under the Master Indenture (e.g., the Borrower or any other entity which has become an Obligated Issuer) will be liable for the payment of all obligations issued under the Master Indenture. See "SECURITY AND SOURCE OF PAYMENT—The Master Indenture."

Under the Master Indenture, the Borrower or any other Obligated Issuer may from time to time issue its notes (the "Notes"). Any Note issued under the Master Indenture is equally and ratably secured on a parity with all other Notes issued under the Master Indenture.

To evidence and secure its obligations under the Loan Agreement to repay amounts loaned by the Authority to the Borrower from the proceeds of the Series 2006A Bonds, the Borrower will, upon issuance of the Series 2006A Bonds, issue to the Authority its Series 2006A Note (the "Series 2006A Note") under the Master Indenture and the Series 2006A Supplemental Indenture. The Series 2006A Note will be equally and ratably secured on a parity with all Notes heretofore or hereafter issued under the Master Indenture.

The Borrower has previously issued one obligation (the "Series 1998 Note") under and secured by the Master Indenture. The Series 1998 Note was issued in the principal amount of $25,660,000 to evidence and secure the Borrower's obligations to repay amounts loaned by the Authority to the Borrower from the proceeds of the Authority's Hospital Revenue Refunding Bonds, Series 1998 (Jackson County Schneck Memorial Hospital Project) (the "Series 1998 Bonds").

On or about the date of issuance of the Series 2006A Bonds, the Authority will issue $20,000,000 of its Adjustable Rate Hospital Revenue Bonds, Series 2006B (Jackson County Schneck Memorial Hospital Project) (the "Series 2006B Bonds"), and loan the proceeds thereof to the Borrower. To evidence and secure its obligation to repay such loan, the Borrower will, upon issuance of the Series 2006B Bonds, issue to the Authority its Series 2006B Note (the "Series 2006B Note") under the Master Indenture and Supplemental Master Indenture No. 4 between the Borrower and the Master Trustee, dated as of May 1, 2006 (the "Series 2006B Supplemental Indenture"). In addition, to evidence and secure its obligation to reimburse amounts to be paid by the provider of a credit and liquidity facility for the Series 2006B Bonds, the Borrower will, upon issuance of the Series 2006B Bonds, issue to such provider its Series 2006C Note (the "Series 2006C Note") under the Master Indenture and Supplemental Master Indenture No. 5 between the Borrower and the Master Trustee, dated as of May 1, 2006 (the "Series 2006C Supplemental Indenture").

The Obligated Group consists solely of the Borrower. In the future, additional entities may choose to become members of the Obligated Group. See "SUMMARY OF PRINCIPAL DOCUMENTS—Definitions—Obligated Issuer" in APPENDIX C hereto.

The Series 2006A Bonds are payable solely from and secured exclusively by the revenue and other amounts pledged thereto under the Bond Indenture, including (a) certain payments to be made by the Borrower under the Series 2006A Note, (b) certain payments to be made by the Borrower under the Loan Agreement, (c) the Series 2006A Supplemental Indenture, and (d) the proceeds of the Series 2006A Bonds and all cash and securities on deposit from time to time in the funds established under the provisions of the Bond Indenture (except for cash and securities held in the Rebate Fund). See "SECURITY AND SOURCE OF PAYMENT."

Amendments to Master Indenture

Upon issuance of the Series 2006A Bonds, the Borrower and the Master Trustee will enter into Supplemental Indenture No. 6 to amend certain provisions of the Master Indenture. By their purchase of the Series 2006A Bonds, the registered and beneficial owners of the Series 2006A Bonds will be deemed to have consented to such amendments, and such amendments will become effective upon the issuance of the Series 2006A Bonds. See "SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Amendments to Master Indenture" in APPENDIX C hereto.

Bondholders' Risks

There are risks associated with the purchase of the Series 2006A Bonds. See "BONDHOLDERS'RISKS."

Continuing Disclosure

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the Borrower has entered into a Continuing Disclosure Undertaking Agreement wherein it has agreed to provide, or cause to be provided through the Bond Trustee or other designated agent, certain annual financial information and other disclosure regarding the occurrence of certain material events. This information will be made available to registered owners of the Series 2006A Bonds through the Nationally Recognized Municipal Securities Information Repositories (as defined in the Rule) and/or the Municipal Securities Rulemaking Board. See "CONTINUING DISCLOSURE."

Official Statement

This "INTRODUCTION" is only a brief description, and is qualified by reference to the entire Official Statement. A full review should be made of the entire Official Statement.

This Official Statement speaks only as of its date, and the information contained therein is subject to change.

The Authority has not provided any information contained in this Official Statement (except for those statements relating to the Authority set forth under the captions "INTRODUCTION," "AUTHORITY" and "LITIGATION—Authority"), and does not certify as to the accuracy or sufficiency of and is not responsible for any other information provided herein.

This Official Statement contains descriptions of, among other matters, the Series 2006A Bonds, the Series 2006A Note, the Bond Indenture, the Loan Agreement, the Master Indenture, and the Borrower. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Bond Indenture, the Loan Agreement and the Master Indenture are qualified in their entirety by reference to such documents, and references herein to the Series 2006A Bonds and the Series 2006A Note are qualified in their entirety by reference to the forms thereof. Until the issuance and delivery of the Series 2006A Bonds, copies of the Bond Indenture, the Loan Agreement, the Master Indenture and other documents described herein may be obtained from Piper Jaffray & Co., as Representative of the Underwriters of the Series 2006A Bonds. After delivery of the Series 2006A Bonds, copies of such documents will be available for inspection at the corporate trust operations office of the Bond Trustee.

SERIES 2006A BONDS

General

The Series 2006A Bonds are issuable only as fully registered bonds without coupons in denominations of $5,000 each and whole multiples thereof. The Series 2006A Bonds will be initially dated as of their date of delivery and will bear interest from that date at the rates and will mature on the dates and in the amounts set forth on the cover of this Official Statement. Interest on the Series 2006A Bonds will be payable semi-annually on February 15 and August 15, commencing August 15, 2006 (each an "Interest Payment Date"). Interest on the Series 2006A Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Principal of and premium, if any, on all of the Series 2006A Bonds will be payable at maturity or redemption upon presentation and surrender thereof at the corporate trust operations office of the Bond Trustee. Interest on the Series 2006A Bonds, when due and payable, will be paid by check or draft mailed by the Bond Trustee no later than the applicable Interest Payment Date (or, in the case of an owner of Series 2006A Bonds in an aggregate principal amount of at least $1,000,000, by wire transfer on such due date, upon written direction of such registered owner on or before the applicable Record Date) to the persons in whose names such Series 2006A Bonds

are registered, at their addresses as they appear on the bond registration books maintained by the Bond Trustee as Registrar on the last day of the month immediately preceding an Interest Payment Date (each a "Record Date"), irrespective of any transfer or exchange of such Series 2006A Bonds subsequent to such Record Date and prior to such Interest Payment Date, unless the Authority shall default in payment of interest due on such Interest Payment Date.

If any payment date of any Series 2006A Bond is not a Business Day, then such payment may be made on the next succeeding Business Day, with the same force and effect as if made on such payment date, and without additional interest accruing thereon for the period after such payment date (whether or not such succeeding Business Day occurs in a succeeding month).

In all cases in which the privilege of exchanging or transferring Series 2006A Bonds is exercised, the Authority will execute and the Bond Trustee will deliver Series 2006A Bonds in accordance with the provisions of the Bond Indenture. The Series 2006A Bonds will be exchanged or transferred at the corporate trust operations office of the Bond Trustee only for Series 2006A Bonds of the same interest rate and maturity. In connection with any transfer or exchange of Series 2006A Bonds, the Authority or the Bond Trustee may impose a charge for any applicable tax, fee or other governmental charge incurred in connection with such transfer or exchange, which sums are payable by the person requesting such transfer or exchange.

Neither the Authority nor the Bond Trustee will be required (a) to issue, transfer or exchange any Series 2006A Bond after a Record Date and before the succeeding Interest Payment Date, or (b) to issue, transfer or exchange any Series 2006A Bond during a period beginning at the opening of business of the Bond Trustee 15 days before any selection of Series 2006A Bonds for redemption and ending at the close of business on the day of the mailing of the relevant notice of redemption or (c) to transfer or exchange any Series 2006A Bonds selected for redemption in whole or in part.

The person in whose name a Series 2006A Bond is registered will be deemed and regarded as its absolute owner for all purposes and payment of principal and interest thereon will be made only to or upon the order of the registered owner or its legal representative, but such registration may be changed as provided above. All such payments will be valid to satisfy and discharge the liability upon such Series 2006A Bond to the extent of the sum or sums so paid. The Series 2006A Bonds will be eligible for registration with The Depository Trust Company, New York, New York.

Redemption

Optional Redemption. The Series 2006A Bonds are subject to redemption by the Authority at the direction of the Obligated Group Representative (upon the simultaneous prepayment of a like principal amount of the Series 2006A Note), prior to their stated maturity, at any time on or after February 15, 2016, in whole or in part, in any order of maturity (or portion thereof) selected by the Obligated Group Representative, within a maturity by lot in such manner as the Bond Trustee may determine, at 100% of the principal amount thereof, together with interest accrued on the principal amount to be redeemed to the date fixed for redemption.

Mandatory Redemption. The Series 2006A Bonds due February 15, 2030, and bearing interest at a rate of 5.25% per annum, are subject to mandatory redemption, at a redemption price of 100% of the principal amount thereof, through the operation of a sinking fund, by lot in such manner as the Bond Trustee may determine, on each February 15 commencing with the year 2023 to and including the year 2030, in an amount sufficient to redeem on such dates, at the principal amount thereof, such Series 2006A Bonds equal to the following principal amounts:

Sinking Fund Payment Date (February 15)	Principal Amount	Sinking Fund Payment Date (February 15)	Principal Amount	
2023	$ 670,000	2027	$ 830,000	
2024	$ 705,000	2028	$ 870,000	
2025	$ 745,000	2029	$ 915,000	
2026	$ 780,000	2030	$ 960,000	(Maturity)

or if less than such amount of such Series 2006A Bonds is outstanding on any such date, an amount equal to the aggregate principal amount of all such Series 2006A Bonds then outstanding.

The Series 2006A Bonds due February 15, 2030, and bearing interest at a rate of 5.00% per annum, are subject to mandatory redemption, at a redemption price of 100% of the principal amount thereof, through the operation of a sinking fund, by lot in such manner as the Bond Trustee may determine, on each February 15 commencing with the year 2023 to and including the year 2030, in an amount sufficient to redeem on such dates, at the principal amount thereof, such Series 2006A Bonds equal to the following principal amounts:

Sinking Fund Payment Date (February 15)	Principal Amount	Sinking Fund Payment Date (February 15)	Principal Amount	
2023	$ 80,000	2027	$ 95,000	
2024	$ 85,000	2028	$ 100,000	
2025	$ 90,000	2029	$ 110,000	
2026	$ 95,000	2030	$ 115,000	(Maturity)

or if less than such amount of such Series 2006A Bonds is outstanding on any such date, an amount equal to the aggregate principal amount of all such Series 2006A Bonds then outstanding.

The Series 2006A Bonds due February 15, 2036, are subject to mandatory redemption at a redemption price of 100% of the principal amount thereof, through the operation of a sinking fund, by lot in such manner as the Bond Trustee may determine, on each February 15 commencing with the year 2031 to and including the year 2036, in an amount sufficient to redeem on such dates, at the principal amount thereof, such Series 2006A Bonds equal to the following principal amounts:

Sinking Fund Payment Date (February 15)	Principal Amount	Sinking Fund Payment Date (February 15)	Principal Amount	
2031	$1,135,000	2034	$ 1,320,000	
2032	$1,190,000	2035	$ 1,390,000	
2033	$1,255,000	2036	$ 1,465,000	(Maturity)

or if less than such amount of such Series 2006A Bonds is outstanding on any such date, an amount equal to the aggregate principal amount of all such Series 2006A Bonds then outstanding.

In accordance with the Bond Indenture, the Bond Trustee will select and call for redemption the Series 2006A Bonds of the respective maturity and interest rate on the dates and in the amounts specified above and such Series 2006A Bonds selected by the Bond Trustee will become due and payable on such dates. The Obligated Group Representative may, in accordance with the option set forth in the Loan Agreement, reduce the amount of any mandatory sinking fund payment with respect to a particular maturity and interest rate of Series 2006A Bonds payable on any sinking fund payment date by an amount equal to the principal amount of outstanding Series 2006A Bonds of the same maturity and interest rate that have been previously redeemed (except through the sinking fund) or have been surrendered uncanceled by the Obligated Group Representative to the Bond Trustee: provided, that the

Obligated Group Representative has surrendered such Series 2006A Bonds to the Bond Trustee or instructed the Bond Trustee to apply such redeemed Series 2006A Bonds as a credit against such mandatory sinking fund payment not less than 60 days prior to such sinking fund payment date. In such case, the Bond Trustee will reduce the amount of such Series 2006A Bonds to be redeemed on such sinking fund payment date by the principal amount of Series 2006A Bonds so surrendered by the Obligated Group Representative or previously redeemed.

Special Redemption. If (i) any land, leasehold interests, buildings, machinery, furniture, fixtures, equipment, hardware, supplies or inventory of the Borrower or any other Obligated Issuer (excluding certain real estate of the Borrower) ("Operating Assets") is damaged, destroyed or condemned, (ii) any gross proceeds from any insurance or condemnation award remaining after payment of all necessary expenses incurred in the collection of such gross proceeds ("Net Proceeds") therefrom exceeds $2,000,000 and (iii) the Obligated Group Representative determines not to use such Net Proceeds to rebuild or repair such Operating Assets, then the Series 2006A Bonds are subject to redemption, in an amount not in excess of such Net Proceeds, at the option of the Obligated Group Representative, in whole or in part, at any time (upon the simultaneous prepayment of a like aggregate principal amount of the Series 2006A Note), in any order of maturity (or portion thereof) selected by the Obligated Group Representative and within any maturity by lot in such manner as the Bond Trustee may determine, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon.

Notice of Redemption. Notice of redemption will be sent by first class mail not less than 30 days nor more than 60 days before the redemption date to each registered owner of a Series 2006A Bond to be redeemed at such owner's address appearing on the bond register, but no defect in or failure to give such notice of redemption for any Series 2006A Bond will affect the validity of proceedings for redemption of any other Series 2006A Bond not affected by such defect or failure. Any such notice will be revocable, unless otherwise provided therein. All Series 2006A Bonds so called for redemption will cease to bear interest on the specified redemption date, provided funds for their redemption have been fully deposited with the Bond Trustee and, except for the purpose of payment, will no longer be protected by the Bond Indenture and will not be deemed outstanding under the Bond Indenture.

SECURITY AND SOURCE OF PAYMENT

Trust Estate

In the Bond Indenture, the Authority will assign to the Bond Trustee, as security for the payment of the Series 2006A Bonds and the performance of its covenants in the Series 2006A Bonds and the Bond Indenture, all right, title and interest of the Authority in, to or under the following (the "Trust Estate"):

(1) the Series 2006A Note, including all payments of principal of and premium, if any, or interest on the Series 2006A Note and any lien securing the Series 2006A Note pursuant to the Master Indenture;

(2) the Loan Agreement (except the Authority's rights to indemnification and payment of administration fees and expenses);

(3) the Series 2006A Supplemental Indenture; and

(4) the proceeds of the Series 2006A Bonds and all cash and securities on deposit from time to time in the funds established under the provisions of the Bond Indenture (except for cash and securities held in the Rebate Fund).

State of Indiana Not Liable on the Series 2006A Bonds; Agreement of the State

The Series 2006A Bonds are special and limited obligations of the Authority, payable solely from and secured exclusively by the Trust Estate. The Series 2006A Bonds do not constitute a debt or liability of the State, the County or any other political subdivision thereof, other than the Authority (as described herein), and will be payable solely from the funds pledged therefor in accordance with the Bond Indenture. The issuance of the Series 2006A Bonds does not directly, indirectly or contingently, obligate the State, the County or any other political subdivision thereof to levy any form of taxation for the payment thereof or to make any appropriation for their

payment. The Series 2006A Bonds and the interest payable thereon do not constitute a debt of the State, the County or any other political subdivision thereof within the meaning of the Constitution or the statutes of the State and do not constitute a charge against the credit or taxing power of the State, the County or any other political subdivision thereof. Neither will the State, the County nor any other political subdivision thereof will in any event be liable for the payment of the principal of or interest on the Series 2006A Bonds or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Authority. No breach by the Authority of any such pledge, mortgage, obligation or agreement may impose any pecuniary liability upon the State or any charge upon its general credit or against its taxing power. The Authority has no taxing power.

The Act provides that the State pledges to, and agrees with holders of any obligations issued under the Act that it will not limit or alter the rights vested in the Authority by the Act until such obligations, together with the interest thereon, are fully met and discharged, provided, however, that nothing in the Act precludes such limitation or alteration if and when adequate provision shall be made by law for the protection of the owners of such obligations.

The Loan Agreement

Pursuant to the Loan Agreement, the Borrower agrees to make payments to the Authority in such amounts and at such times as are sufficient to pay in full, when due, the principal of, premium, if any, and interest on the Series 2006A Bonds. The Series 2006A Bonds are *not* secured by any mortgage on any of the Borrower's property.

The Series 2006A Note

To secure its obligations under the Loan Agreement, the Borrower will issue to the Authority pursuant to the Master Indenture a Series 2006A Note in a principal amount equal to the aggregate principal amount of the Series 2006A Bonds. All payments by the Borrower of the principal of, premium, if any, and interest on the Series 2006A Note will be made to the Bond Trustee and each payment will be made on or before the date when the corresponding payment is required to be made on the related Series 2006A Bonds. The principal of, premium, if any, and interest payments on the Series 2006A Note correspond in amount to the Series 2006A Bonds. The Series 2006A Note will at all times be in fully registered form and will be non-transferable except as required to effect the assignment thereof to the Bond Trustee and any successor trustee. The Series 2006A Note and all other Notes issued under the Master Indenture, including the Series 1998 Note, the Series 2006B Note and the Series 2006C Note, whether issued to the Authority or other creditors, will be equally and ratably secured under the Master Indenture.

Pursuant to Indiana Code 16-22, the Borrower is not obligated to pay debt service on the Series 2006A Note from moneys required to pay operating expenses. Therefore, there may not be an effective remedy available to the Bond Trustee or the Master Trustee should the excess of unobligated revenues over operating expenses be insufficient to pay debt service.

Pursuant to the terms of the Series 2006A Supplemental Indenture, the Master Trustee is precluded from exchanging the Series 2006A Note for the obligations of a different obligated group of which the Borrower may become a member. See "SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Substitution of Notes" in APPENDIX C hereto.

The Master Indenture

Collective Obligations. The Master Indenture permits the Borrower and any other Obligated Issuers to issue additional Notes and to secure all Notes on a parity basis. Upon issuance of the Series 2006A Bonds, the Borrower will be the only member of the Obligated Group. Additional Notes may be issued to secure obligations issued by any state of the United States of America or any municipal corporation or other political subdivision formed under the laws thereof or any body corporate and politic or any constituted authority or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (a "Governmental Issuer"), the proceeds of which obligations are loaned or otherwise made available to or for the benefit of the Borrower or any other Obligated Issuer (such obligations, "Related Bonds"), or to evidence or secure debt owed to other creditors.

Although each Obligated Issuer is the principal obligor on obligations issued on its behalf under the Master Indenture, all members of the Obligated Group are obligated with respect to payment of each Note issued under the Master Indenture.

Negative Pledge. Pursuant to the Master Indenture, the Borrower will covenant not to incur indebtedness secured by an encumbrance on or mortgage of the Property of the Borrower, including the Pledged Revenues, unless the Series 2006A Bonds are equally and ratably secured with such indebtedness or unless such mortgage is a Permitted Encumbrance under the Master Indenture.

Pledge of Pledged Revenues. In the Master Indenture, for the equal and proportionate benefit, security and protection of all present and future holders of (i) the Notes and (ii) any obligations guaranteeing or in effect guaranteeing any indebtedness or other obligation of any other person (a "Guaranty"), the Borrower has, and any future members of the Obligated Group will be deemed to have, granted to the Master Trustee, subject to Permitted Encumbrances, a security interest in the following (the "Pledged Revenue"):

(i) All cash and other receipts, present and future accounts, receivables, contracts and contract rights (including particularly those between the Borrower and each other Obligated Issuer and the State or any other state with respect to Medicaid; the Borrower and each other Obligated Issuer and the United States of America with respect to Medicare and all other equivalent insurance programs, or any state or federal program substituted in lieu thereof);

(ii) General intangibles, documents and instruments, which are now owned or hereafter acquired by the Borrower and each other Obligated Issuer, and all proceeds therefrom, whether cash or non-cash, and which are derived by the Borrower and each other Obligated Issuer from the conduct of all or any part of their respective operations; and

(iii) All revenue and income of the Borrower and each other Obligated Issuer from whatever source derived, including income from the principal of investments, leases and income received from leases, and grants received by the Borrower and each other Obligated Issuer from any source;

but excluding the proceeds of any grant, gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) specifically restricted by the donor or grantor to a special object or purpose which precludes the use thereof by the Borrower or any other Obligated Issuer for debt service or for financing the costs, or for paying the operating, maintenance and repair expenses, of facilities operated by the Borrower or any other Obligated Issuer holding or entitled to such proceeds ("Restricted Moneys") of the Borrower and the other Obligated Issuers.

Notwithstanding the foregoing, only amounts in excess of total operating and nonoperating expenses of the Borrower and each other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions ("Total Expenses") (other than depreciation, amortization, interest and certain non-cash items, including any gain or loss resulting from the extinguishment of indebtedness, sale, exchange or disposition of capital assets or a change in accounting principles) constitute Pledged Revenues.

Debt Service Reserve Fund

The Bond Indenture creates a Debt Service Reserve Fund which is to be held by the Bond Trustee thereunder as a reserve for the payment of principal of and interest on the Series 2006A Bonds. The Debt Service Reserve Fund will be funded initially by the deposit of $1,425,900 from the proceeds of the Series 2006A Bonds. The Debt Service Reserve Fund is to be maintained as of any date of calculation at the least of (a) the maximum amount of principal and interest coming due on the Series 2006A Bonds then outstanding in the then current or any future Bond Year, (b) 10% of the stated principal amount of the Series 2006A Bonds then outstanding, or (c) 125% of average annual debt service of the Series 2006A Bonds then outstanding (the "Debt Service Reserve Requirement").

Additional Bonds

The Authority may issue additional bonds under the Bond Indenture, on a parity with the Series 2006A Bonds, to refund the Series 2006A Bonds or any other bonds issued under the Bond Indenture. See "SUMMARY OF PRINCIPAL DOCUMENTS—Bond Indenture—Additional Bonds."

County Not Liable on Series 2006A Note

The obligations of the Borrower under the Loan Agreement, the Series 2006A Note and the Master Indenture are special and limited obligations of the Borrower, payable solely from the Pledged Revenues. Such obligations do not constitute a pledge of the faith and credit of the County or an indebtedness or charge against the general credit or taxing powers of the County within the meaning of any constitutional or statutory provision. The Borrower has no taxing power.

Enforceability of Remedies; Limitations

The Borrower's obligations under the Loan Agreement are evidenced by the Series 2006A Note, which is in turn secured under the Master Indenture. The practical realization of value upon any default will depend upon the exercise of various remedies specified in the Bond Indenture, the Loan Agreement and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay. Under existing law, the remedies specified by the Bond Indenture, the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Series 2006A Bonds will contain customary qualifications as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally. See "BONDHOLDERS' RISKS" herein.

BOOK-ENTRY ONLY SYSTEM

Series 2006A Bonds in Book-Entry Form

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2006A Bonds. The Series 2006A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee or such other name as may be requested by an authorized representative of DTC). One fully-registered Series 2006A Bond certificate will be issued for each maturity of the Series 2006A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear

through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2006A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2006A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006A Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2006A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2006A Bonds, except in the event that use of the book-entry system for the Series 2006A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2006A Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2006A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2006A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2006A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2006A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2006A Bonds may wish to ascertain that the nominee holding the Series 2006A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners; in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2006A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2006A Bonds, unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2006A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Series 2006A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on the payment dates in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to

Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2006A Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2006A Bond certificates are required to be printed and delivered.

The Authority or the Borrower may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2006A Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borrower believes to be reliable, but neither the Borrower, the Authority nor the Underwriters take any responsibility for the accuracy thereof, including, without limitation, the information concerning DTC and DTC's book-entry system contained in DTC's website referenced above.

Disclaimer

THE INFORMATION PROVIDED ABOVE UNDER THIS CAPTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE BORROWER OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

FOR SO LONG AS THE SERIES 2006A BONDS ARE REGISTERED IN THE NAME OF DTC OR ITS NOMINEE, CEDE & CO., THE AUTHORITY AND THE BOND TRUSTEE WILL RECOGNIZE ONLY DTC OR ITS NOMINEE, CEDE & CO., AS THE REGISTERED OWNER OF THE SERIES 2006A BONDS FOR ALL PURPOSES, INCLUDING PAYMENTS, NOTICES AND VOTING. UNDER THE BOND INDENTURE, PAYMENTS MADE BY THE BOND TRUSTEE TO DTC OR ITS NOMINEE WILL SATISFY THE AUTHORITY'S OBLIGATIONS UNDER THE BOND INDENTURE AND THE BORROWER'S OBLIGATIONS UNDER THE LOAN AGREEMENT TO THE EXTENT OF THE PAYMENTS SO MADE.

PLAN OF FINANCING

Financing

On or about the date of issuance of the Series 2006A Bonds, the Authority will issue its Series 2006B Bonds. The proceeds of the Series 2006A Bonds and the Series 2006B Bonds, together with other moneys of the Borrower and the Foundation (as defined herein), will be utilized, as hereinafter set forth, to finance, reimburse or refinance the costs of the Project. See "ESTIMATED SOURCES AND USES OF FUNDS."

Proposed Capital Improvements

The capital improvements constituting the "Project" to be financed, reimbursed or refinanced by the Borrower consist of (a) the acquisition, construction or installation of an approximately 84,000 square foot addition to the existing hospital facility, including (i) demolition of a portion of the existing facility, and (ii) construction of a south wing to house expanded emergency department and diagnostic imaging facilities (including the purchase of a new CT scanner) and a new patient entrance; (b) expansion and reconfiguration of parking facilities; and (c) renovation of approximately 90,600 square feet of existing space, including renovation of in-patient areas to allow for private rooms. In addition to the foregoing capital improvements, the proceeds of the Series 2006A Bonds and the Series 2006B Bonds will be utilized to pay certain costs incurred in connection with the financing of the Project. See "ESTIMATED SOURCES AND USES OF FUNDS."

ESTIMATED SOURCES AND USES OF FUNDS

The sources of funds, the expenses incurred in connection with the Project and the issuance of the Series 2006A Bonds, the Series 2006B Bonds and related matters, are estimated as follows:

Sources of Funds:	
Bond Proceeds	
Series 2006A	$ 15,000,000
Series 2006B	20,000,000
Original Issue Premium	294,794
Borrower Contribution[(a)]	21,401,513
Foundation Contribution[(a)]	4,000,000
Interest Earnings[(b)]	1,576,884
Total Sources of Funds	$ 62,273,191
Uses of Funds:	
Costs of Project	$ 60,354,228
Debt Service Reserve Fund[(c)]	1,425,900
Issuance Costs, Including Underwriters' Discount [(d)]	493,063
Total Uses of Funds	$ 62,273,191

(a) In addition to the proceeds of the Series 2006A Bonds and the Series 2006B Bonds, the Borrower and a related entity, Jackson County Schneck Memorial Hospital Foundation, Inc. (the "Foundation"), will make equity contributions to finance the costs of the Project.

(b) Amounts deposited in the Project Fund for the Series 2006A Bonds and the Series 2006B Bonds are assumed to earn interest at a rate of 4.8% per annum.

(c) The Bond Indenture for the Series 2006A Bonds creates a Debt Service Reserve Fund as a reserve for the payment of principal of and interest on the Series 2006A Bonds. The Debt Service Reserve Fund is not available to pay principal of or interest on the Series 2006B Bonds.

(d) Includes legal fees, underwriters' discount, printing costs and other fees and expenses associated with the issuance of the Series 2006A Bonds and the Series 2006B Bonds.

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PRINCIPAL AND INTEREST REQUIREMENTS

The following table sets forth, for each Bond Year ending February 15, the amounts required in such Bond Year for the payment of principal at maturity or by sinking fund redemption on such February 15 and the payment of interest on the Series 1998 Bonds, the Series 2006A Bonds and the Series 2006B Bonds.

		Series 2006A Bonds				
Year Ending February 15	Series 1998 Bonds	Principal Amount	Interest	Total	Series 2006B Bonds[(a)]	Total Debt Service[(b)]
2007	1,976,559		554,267	554,267	684,315	3,215,141
2008	1,973,839		785,575	785,575	844,253	3,603,666
2009	1,978,269		785,575	785,575	839,645	3,603,489
2010	1,974,269		785,575	785,575	834,075	3,593,919
2011	1,978,019		785,575	785,575	828,825	3,592,419
2012	1,977,669		785,575	785,575	823,262	3,586,506
2013	1,974,500		785,575	785,575	818,635	3,578,710
2014	1,978,513		785,575	785,575	813,075	3,577,163
2015	1,974,194		785,575	785,575	807,825	3,567,594
2016	1,976,800		785,575	785,575	802,272	3,564,647
2017	1,975,819		785,575	785,575	797,625	3,559,019
2018	1,976,250		785,575	785,575	792,075	3,553,900
2019	1,975,925		785,575	785,575	786,825	3,548,325
2020	1,976,400		785,575	785,575	781,282	3,543,257
2021	1,977,413		785,575	785,575	776,616	3,539,603
2022	1,978,700		785,575	785,575	771,075	3,535,350
2023		750,000	785,575	1,535,575	1,565,825	3,101,400
2024		790,000	746,400	1,536,400	1,577,305	3,113,705
2025		835,000	705,138	1,540,138	1,583,004	3,123,142
2026		875,000	661,525	1,536,525	1,591,525	3,128,050
2027		925,000	615,825	1,540,825	1,593,725	3,134,550
2028		970,000	567,500	1,537,500	1,604,323	3,141,823
2029		1,025,000	516,825	1,541,825	1,613,758	3,155,583
2030		1,075,000	463,288	1,538,288	1,615,875	3,154,162
2031		1,135,000	407,138	1,542,138	1,626,600	3,168,738
2032		1,190,000	347,550	1,537,550	1,630,279	3,167,829
2033		1,255,000	285,075	1,540,075	1,642,549	3,182,624
2034		1,320,000	219,188	1,539,188	1,647,400	3,186,588
2035		1,390,000	149,888	1,539,888	1,655,425	3,195,313
2036		1,465,000	76,913	1,541,913	1,666,324	3,208,236
TOTALS	31,623,135	15,000,000	18,885,717	33,885,717	35,415,597	100,924,449

(a) Series 2006B Bonds are assumed to bear interest at 3.5% per annum and to be subject to annual optional redemption as set forth in the Initial Credit Facility Agreement.

(b) The Borrower also has capital lease obligations totaling approximately $21,913. Any calculation with respect to the Borrower's compliance with the debt service coverage ratio covenant in the Master Indenture must take into account all capital lease obligations of the Borrower.

HISTORICAL AND PRO FORMA DEBT SERVICE COVERAGE

Reference is hereby made to "APPENDIX A—Jackson County Schneck Memorial Hospital—Historical and Pro Forma Coverage of Debt Service." The table set forth therein reflects the net income of the Borrower available to cover actual debt service in the Borrower's fiscal years ended December 31, 2003, 2004 and 2005. The table also indicates pro forma debt service coverage as if the Series 2006A Bonds and the Series 2006B Bonds had been issued and outstanding as of December 31, 2005.

AUTHORITY

The Authority was established on May 15, 2005, as the successor to the IHFFA, which was created in 1983 pursuant to the provisions of the Act. The Authority is organized and existing under and by virtue of the Act as a public body politic and corporate, not as an agency of the State, but an independent public instrumentality exercising essential public functions. Under the Act, in addition to financing facilities for private institutions of higher education, the Authority is authorized to make loans to "participating providers" (as defined in the Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of "health facility property" (as defined in the Act). The Authority may finance health facility property located in Indiana or outside Indiana if the financing also includes a substantial component, as determined by the Authority, for the benefit of a health facility located in Indiana. Further, the participating provider (or an affiliate thereof) in any financing for a health facility outside Indiana must operate a substantial health facility, as determined by the Authority, in Indiana. The Authority has no taxing power.

The Act provides that the Authority shall consist of seven members, four of whom are appointed by the Governor of the State for terms of four years each. Two of the four members appointed by the Governor must be knowledgeable in health care or public finance and investment matters related to health care, and two of the members appointed by the Governor must be knowledgeable in higher education or public finance and investment matters related to higher education. The Authority shall also include among its members (i) the Governor or the Governor's designee, who shall serve as chairman of the Authority, (ii) the State public finance director or the State public finance director's designee, and (iii) the State health commissioner or the State health commissioner's designee. All Authority members must be residents of the State, with not more than three of the four members appointed by the Governor being of the same political party. All Authority members serve without compensation but are entitled to reimbursement for actual and necessary expenses as determined by the Authority. The Governor shall appoint an Executive Director to serve at the pleasure of the Governor and to receive such compensation as the members of the Authority shall determine. The Executive Director serves as an ex-officio secretary of the Authority, administers, manages and directs the employees of the Authority (under the direction of the members of the Authority), approves all accounts and expenses and performs other and additional duties as directed by the members of the Authority.

The Act provides that the State pledges to, and agrees with, the holders of any obligations issued under the Act that it will not limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged; provided, however, that nothing in the Act precludes such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligations.

The Authority has undertaken and will continue to undertake other types of financings for the purposes authorized by and in accordance with the procedures set forth in the Act, including loans to other participating providers, equipment financing, small loan and pooled loan programs and project financing for private institutions of higher education. The Series 2006A Bonds neither have nor will have any claim of payment from the security or revenues pledged for the payment of the obligations issued by the Authority in connection with any and all such financings, and no such obligations have or will have any claim of payment from the security or revenues pledged for the payment of the Series 2006A Bonds. Obligations of the Authority outstanding or issued subsequent to the issuance of the Series 2006A Bonds are payable solely from the revenues derived from the programs or from participating providers or private institutions of higher education in connection with which such obligations were issued.

THE SERIES 2006A BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE BOND INDENTURE. THE SERIES 2006A BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY, WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY, AND THE SERIES 2006A BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE

AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY, LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

BONDHOLDERS' RISKS

General

As described under "SECURITY AND SOURCE OF PAYMENT," the principal of and premium, if any, and interest on the Series 2006A Bonds are payable solely from and secured exclusively by the Trust Estate, including payments to be made by the Borrower under the Loan Agreement and the Series 2006A Note. No representation or assurance is given or can be made that revenues will be realized by the Borrower or any future Obligated Issuers in amounts sufficient to pay debt service on the Series 2006A Bonds when due and other payments necessary to meet the obligations of the Borrower and any future Obligated Issuers. These revenues are affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. The risk factors described below should be considered in evaluating the Borrower's ability to make payments in amounts sufficient to provide for payment of the principal of and premium, if any, and interest on the Series 2006A Bonds.

The Borrower derives significant portions of its revenues from Medicare, Medicaid and other third party payor programs. The Borrower is subject to governmental regulations applicable to health care providers and the receipt of the future revenue by the Borrower is subject to, among other factors, federal and state policies affecting the health care industry and other conditions which are impossible to predict. The effect on the Borrower of recently enacted laws and regulations, of future changes in federal and state laws and policies, and changes in third party payor policies cannot be fully or accurately determined at this time.

In addition, the receipt of future revenues by the Borrower is subject to changes in future economic and other conditions, including increased competition, inflation, demand for hospital services, the capability of management of the Borrower, the ability of the Borrower to provide the services required or requested by patients, physicians' confidence in the Borrower, employee relations and unionization, malpractice claims and other litigation, demographic changes and other factors. Such factors may adversely affect revenues and, consequently, payment of the principal of and premium, if any, and interest on the Series 2006A Bonds.

The following description of risk factors is not, and is not intended to be, exhaustive.

Payment for Health Care Services

Most of the patient service revenues of the Borrower are derived from third party payors which reimburse or pay for the services and items provided to patients covered by such third parties for such services, including the federal Medicare program, state Medicaid programs and private health plans and insurers, health maintenance organizations, preferred provider organizations and other managed care payors. Many of those programs make payments to the Borrower at rates other than the direct charges of the Borrower, which rates may be determined other than on the basis of the actual costs incurred in providing services and items to such patients. Accordingly, there can be no assurance that payments made under such programs will be adequate to cover the Borrower's actual costs of furnishing health care services and items. In addition, the financial performance of the Borrower could be adversely affected by the insolvency of, or other delay in receipt of payments from, third party payors which provide coverage for services to their patients.

Medicare and Medicaid Programs

Medicare and Medicaid are the commonly used names for hospital reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicaid is

designed to pay providers for care given to the medically indigent and other who receive federal aid. Medicaid is funded by federal and state appropriations, and administered by an agency in the relevant state. Health care providers have been and will be affected significantly by changes in the last several years in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, some of which have been implemented and some of which will be implemented in the future. The following is a summary of the Medicare and Medicaid programs and certain risk factors related thereto.

Medicare

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. As a result, the Borrower will have a significant dependence on Medicare as a source of revenue, and changes in the Medicare program are likely to have a material effect on the Borrower. The requirements for Medicare certification and participation are subject to change, and in order to remain qualified for the program, it may be necessary for the Borrower to effect changes from time to time in its facilities, equipment, personnel and services. The Borrower intends to continue to participate in the Medicare program.

Medicare Reimbursement of Hospitals. Under the prospective payment system, Medicare pays general acute care hospitals a predetermined rate for each covered hospitalization. Each such hospitalization is classified into one of several hundred categories of possible treatments or conditions, known as "diagnosis related groups" ("DRGs"). Hospitals are paid a predetermined amount based on the DRG to which each patient is assigned. The DRG is determined by diagnosis, procedure and other factors for each particular inpatient stay. The DRG amount is established prospectively by the Centers for Medicare and Medicaid Services ("CMS"), in the U.S. Department of Health and Human Services ("HHS"). The DRG rate is not related to the actual cost to a specific hospital of treating a patient. For certain Medicare beneficiaries who have unusually costly hospital stays ("outliers"), CMS will provide additional payments above those specified for the DRG. Outlier payments cease to be available upon the exhaustion of a patient's Medicare benefits or a determination that acute care is no longer necessary, whichever occurs first. There is no assurance that any of these payments will cover the actual costs incurred by a hospital.

DRG rates are adjusted annually based on the hospital "market basket" index. Since 1983, Congress (except in 2001) has modified the increases and approved increases substantially less than the market basket increase. There is no guarantee that such Medicare reimbursement rates, as they change from time to time, will cover the Borrower's or any future Obligated Group member's, as applicable, actual costs of providing services to Medicare patients.

In fact, pursuant to the Balanced Budget Act of 1997 (the "BBA") the DRG payment increase for fiscal year 1999 was the market basket percentage increase minus 1.9 (-1.9) % for all hospitals in all areas. It was market basket minus 1.8 (-1.8)% for fiscal year 2000. The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA"), which was signed into law in December 2000, provides certain givebacks to hospitals to alleviate the effect of the BBA. Specifically, from October 1, 2000 through March 31, 2001, the payment update was the market basket index minus 1.1 (-1.1) %, but changed to market basket index plus 1.1% for the remainder of federal fiscal year 2001. The payment update for federal fiscal years 2002 and 2003 is market basket index minus 0.55%. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("DIMA"), Pub. Law 108-173, provides for an update for federal fiscal years 2004 through 2007 of the market basket increase. However, to receive the market basket increase for fiscal years 2005 through 2007, hospitals must submit certain quality indicators to the Secretary of HHS. If a hospital fails to submit such indicators in any one year, then its payment increase will be market basket minus 0.4% for the year such data is not received. On January 28, 2004, CMS announced the guidelines hospitals should use in submitting their quality performance data. To receive the full update, hospitals must sign up with the Quality Improvement Organization data warehouse by June 1, 2004, and transmit the required data by July 1, 2004. The Secretary of HHS cannot take into account any reduction made when computing the applicable increase in later years. For fiscal year 2008 and thereafter, the payment update is the market basket.

The Secretary of HHS is required to review annually the DRG categories to take into account any new procedures and reclassify DRGs and recalibrate the DRG relative weights which reflect the relative hospital resources used by hospitals with respect to discharges classified within a given DRG category. There is no assurance that the Borrower will be paid amounts which will adequately reflect changes in the cost of providing health care or in the cost of health care technology being made available to patients. HHS may only adjust DRG weights on a budget-neutral basis.

Certain hospitals and inpatient psychiatric and rehabilitation units are exempted from the prospective payment system established by Section 1833(t) of the Social Security Act ("PPS") and are reimbursed on a "reasonable cost" basis, subject to the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") rate of increase ceiling on inpatient costs per discharge. Under this system, if an exempt hospital or distinct unit of a hospital is operated at costs less than the established TEFRA rate, it is paid under the BBA an incentive of 15% of the difference between its operating costs and the TEFRA rate but the incentive may never exceed 2% of its operating cost. The BBA also provides for the gradual elimination of these "cost based" reimbursement systems. In accordance with a proposed rule published on November 3, 2000, inpatient rehabilitation services will be converted to a prospective payment system during a two-year transition period commencing with cost reporting periods beginning on or after April 1, 2000. However, pursuant to the Omnibus Budget Bill, a rehabilitation facility may elect to be paid entirely under the prospective payment system and avoid the transition period. Similarly, inpatient psychiatric services will be converted to a prospective payment system for cost reporting periods beginning on or after October 1, 2002. CMS published a proposed rule on November 28, 2003, for a PPS for psychiatric hospitals and units. CMS extended the comment period on this proposed rule until February 26, 2004. The proposed rule contains an effective date of April 1, 2004, with a three year transition period.

Disproportionate Share Hospitals. The Medicare Program provides additional payment for hospitals that serve a disproportionate share of low income patients ("DSH adjustment"). To qualify as a low income share hospital, a number of factors are considered, including number of beds, location and disproportionate patient percentage. The DSH adjustment is calculated under one of several methods, depending upon the basis for the hospital's classification as a DSH hospital. The BBA, as further amended by the BIPA, mandates reductions in DSH payments of 1% in fiscal year 1998, 2% in fiscal year 1999, 3% in fiscal year 2000, 2% in fiscal year 2001, 3% in fiscal year 2002, and 0% in fiscal year 2003 and each year thereafter. The Omnibus Budget Bill also included additional DSH payments for certain providers in federal fiscal year 2001. The Secretary of HHS is also required under the BBA to develop a new formula for calculating DSH payments. There can be no assurance that DHS adjustments will not be decreased or eliminated in the future. Such changes could have a material adverse impact on the financial condition of the Borrower or any future members of the Obligated Group that operate disproportionate share hospitals.

Graduate Medical Education. Medicare reimburses teaching hospitals for the direct and indirect costs of their approved graduate medical education ("GME") programs. Medicare reimburses direct GME costs, which include resident salaries, fringe benefits and physician compensation costs for teaching activities, based on the hospital's "cost per resident," as determined in the hospital's base year (and as defined in the regulations). Medicare pays hospitals an additional amount for indirect GME costs, which include costs attributable to increased diagnostic testing and higher staffing ratios. Congress has recently proposed legislation that would reduce or eliminate hospitals' GME reimbursement. The BBA provides for reductions in payments for both direct and indirect GME payments.

Capital Cost Reimbursement. Effective for cost reporting periods beginning on or after October 1, 2001, hospitals will be reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs will be reimbursed exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital. Prior to October 1, 2001, hospitals are paid on the basis of a blend of hospital-specific costs and the standard federal rate. A hospital may qualify for "hold harmless" payments for its capital costs under special rules for capital projects undertaken prior to 1991. The BBA reduced the federal rate by 17.78% for all discharges after October 1, 1997 and before October 1, 2002. This reduction applies to the federal rate before the application of the adjustment factors for outliers, exceptions and budget neutrality. The BBA also rebased capital payment rates in fiscal year 1998 using

fiscal year 1995 rates and further reduced the capital payment rate by 2.1%. The BBA also reduced capital payments for PPS-exempt units to 85% of reasonable costs.

Patient Transfers. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress has enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"). EMTALA, among other things, imposes certain requirements which must be met before transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties. Failure of the Borrower or any future member of the Obligated Group, as applicable, to meet its responsibilities under the law could adversely affect the financial condition of the Borrower and any future member of the Obligated Group, as applicable.

Home Health Services. Historically, Medicare reimbursed home health agencies for both operating and capital expenses incurred in providing each of the covered home health disciplines on a reasonable cost basis, subject to certain limits. However, the BBA required the Secretary to develop a prospective payment system for all home health services ("Home Health PPS"). On July 3, 2000, the CMS published the final rule, effective October 1, 2000, implementing the Home Health PPS. Under the new rule, Medicare pays home health agencies for sixty-day episodes of care and reimburses agencies at higher rates for beneficiaries with greater needs. The system uses national payment rates that range from about $1,100 to $5,900, depending on the intensity of care required by each beneficiary, adjusted to reflect area wage differences. Medicare also pays agencies 60% of the initial episode payment when they accept new Medicare patients as part of a streamlined approval process. Under the rule, Medicare pays home health agencies: (1) for an unlimited number of medically necessary episodes of care; (2) at a higher rate to care for those with greater needs; payment rates are based on relevant data from patient assessments conducted by clinicians--who do not have to be physicians--as already required for all Medicare-participating home health agencies; (3) based on verbal orders on the initial billing; and (4) and other suppliers separately for medically necessary durable medical equipment provided under the home health plan of care. In the Balanced Budget Refinement Act of 1999, Congress eliminated an earlier law that would have required agencies to bill for this equipment, even if it was provided by outside suppliers.

Physician Services. Certain physician services are reimbursed on the basis of a national fee schedule called the "resource based-relative value scale" ("RB-RVS"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. The BBA established a new limit on the growth of Medicare payments for physicians' services. The "Sustainable Growth Rate" ("SGR") replaces the "Volume Performance Standard" ("VPS"). The SGR is linked to changes in the U.S. Gross Domestic Product, while the VPS was linked to the growth in medical inflation. Under SGR, CMS predicted that the increase for 2004 would be market basket minus 4.5%. DIMA provides an update for 2004 and 2005 of not less than 1.5% and modifies the method for calculating the SGR.

Outpatient Services. Section 1833(t) of the Social Security Act provides for a prospective payment system ("PPS") of reimbursement for hospital outpatient services, including hospital operating and capital costs. CMS published a final rule implementing this section on April 7, 2000. The effective date of this rule was August 1, 2000. Several Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, physical and occupational therapy, and speech language pathology services.

Under hospital outpatient PPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification ("APC") groups. Using hospital outpatient claims data from calendar year 1996 and data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group.

There can be no assurance that the hospital PPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Borrower allocable to Medicare patient care.

Provider-Based Standards. CMS issued in its hospital outpatient PPS rule, published April 2000, specific standards related to whether an entity qualifies as "provider-based" rather than "freestanding." The new standards make it more difficult to qualify as "provider-based" and are aimed at stemming the proliferation of entities characterized as "provider-based." Those standards are applicable for provider cost reporting periods beginning on or after January 10, 2001, although BIPA permits facilities treated as provider-based as of October 1, 2000 to continue to be treated as provider-based until October 1, 2002. The BIPA further restricts the application of those rules for certain entities. These standards may lead to the reclassification of entities now characterized as "provider-based" to "freestanding." Such a reclassification may adversely affect the entity's reimbursement under the Medicare program.

Skilled Nursing Care. Medicare Part A reimburses for certain post-hospital inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. The federal government has recently implemented a prospective payment system for Medicare reimbursement. The prior system was a retrospective cost-based system. The prospective payment system is based on historical costs and resource utilization of the residents. Geographic variations in labor costs are also considered. The prospective payment system applies to cost report periods beginning on or after July 1, 1998. For the first three years of implementation (referred to as the "Transition Period"), the prospective payment will be a blend of a "facility-specific per diem rate" and an "adjusted federal per diem rate." Under the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999, a facility may elect immediate transition to the federal rate, effective for cost reporting periods beginning January 1, 2000. Starting with cost reporting periods for fiscal year 2002, payment will be based entirely on federal payment ratios.

In addition to the prospective payment system, the BBA enacted consolidated billing for certain Medicare Part B services. Under consolidated billing, the Part B payment will be made to the facility whether the item or service was furnished by the facility or by others under arrangement. The services excluded from the consolidated billing requirement include physician services, physician services provided by a physician's assistant, a nurse practitioner or certified nurse specialist, nurse-midwife services, certain dialysis supplies, erythropoietin for dialysis patients and transportation costs for electrocardiogram equipment. Effective January 1, 2001, consolidated billing requirements are limited to Medicare-covered services furnished to residents in Part A-covered stays and for any physical, occupational or speech-language therapy. Consolidated billing requirements for residents in non-covered stays were repealed, except for certain Part B therapy services furnished to residents, regardless of whether they are in a covered Part A stay.

Medicare+Choice. The BBA provides for a new Medicare Part C, the Medicare+Choice program. This program is expected to increase the number of Medicare beneficiaries electing an alternate health plan option. The Medicare+Choice program provides three options: Fee-For-Service; Coordinated Health Plans; and Provider Sponsored Organizations. Coordinated Health Plans encompass both Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs). Medicare HMOs and PPOs enter into contractual arrangements with hospitals, pursuant to which the HMO or PPO pays negotiated rates which may be less than standard Medicare DRG rates. Such Medicare HMOs may pay providers on a "capitated" basis; that is, at a predetermined amount per enrollee regardless of the value of services used by enrollees. Several Medicare+Choice plans have been recently abandoned in other markets and nationally such programs have enjoyed only limited success. The development of Medicare HMOs and PPOs could materially and adversely affect the financial condition of the Borrower and any future members of the Obligated Group, as applicable.

Audits, Exclusions, Fines and Enforcement Actions. Medicare participating hospitals are subject to audits and retroactive audit adjustments with respect to the Medicare program. Such adjustments may exceed any reserves established and may be substantial. Medicare regulations also provide for withholding Medicare payment in certain circumstances, and such withholdings could have a substantial adverse effect on the ability of the Borrower to make payments with respect to the Loan Agreement and the Series 2006A Note or on its overall financial condition.

There is an increasingly expanding and complex body of laws, regulations and policies relating to Medicare which is not directly related to Medicare payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducement of business or referrals, all of which carry potentially significant penalties for noncompliance.

(i) *Federal Medicare/Medicaid Anti Fraud and Abuse Laws*. The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (also referred to as the "Anti-Kickback Law") prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration in order to induce business for which reimbursement is provided under the Medicare, Medicaid and other federal health care programs, including any program or plan funded in whole or in part by the federal government (except the federal employee health benefit program). The scope of prohibited payments under the Anti-Kickback Law are so broadly drafted (and so broadly interpreted by several applicable federal cases and in statements by officials of the Office of Inspector General) that they may create liability in connection with a wide variety of business transactions and other hospital-physician relations that have been traditional or commonplace in the healthcare industry. Limited statutory exceptions and "safe harbor" regulations define a narrow scope of practices that will be exempted from prosecution or other enforcement action. Activities that fall outside of the safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties.

Because the published regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law. On the other hand, failure to meet a safe harbor's requirements does not mean that a violation of the statute has occurred.

Violations of the Medicare anti-fraud and abuse laws may result in civil and criminal penalties. Civil penalties for violations of the anti-fraud provisions include temporary or permanent exclusion from the Medicare and Medicaid programs (which accounts for a significant portion of revenue and cash flow of most hospitals). In addition to the current civil monetary penalties under the Anti-Kickback Law, the BBA created a new civil monetary penalty for violations of the federal anti-kickback statute for cases in which a person contracts with an excluded provider for the provision of health care items or services where the person knows or should know that the provider has been excluded from participation in a federal health care program. Violations will result in damages three times the remuneration involved as well as a penalty of $50,000 per violation.

If determined adversely to the Borrower, or any future member of the Obligated Group, as applicable, enforcement actions could have materially adverse consequences with respect to the Borrower or any future member of the Obligated Group, as applicable. These penalties may be applied to many situations in which hospitals and physicians conduct joint business activities, physician recruiting and retention programs, various forms of hospital assistance to medical practices or the physician contracting entities, physician referral services, hospital physician service or management contracts, and space or equipment rentals between hospitals and physicians. The Borrower will likely conduct many activities of these general types or similar activities, which may pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the Office of Inspector General, which is charged with enforcement.

Hospitals often engage in programs which waive certain Medicare coinsurance and/or deductible amounts. Many such waiver programs may be considered to be in violation of certain rules and policies applicable to the Medicare program and may be subject to enforcement action. The extent to which challenges or prosecutions of hospitals involved in these programs may be initiated is uncertain as is the ultimate outcome. If an agency or court were to conclude that such waivers violated the applicable law or regulations, there is a possibility that the Borrower could be excluded from participation in the Medicare and Medicaid program, and/or assessed fines and penalties which could be substantial, and/or that Medicare payments might be withheld from the Borrower.

Medicare also requires that certain financial information be reported on a periodic basis, and with respect to certain types of classifications of information, penalties are imposed for inaccurate reports. These requirements are numerous, technical and complex and there can be no assurance that the Borrower or any future member of the Obligated Group, as applicable, may not incur such penalties in the future. With respect to certain types of classifications of information, the False Claims Act and other similar laws may be violated merely by reason of inaccurate or incomplete reports if it is determined that the entity submitting such claims or reports knew or should have known that such reports were incorrect. As a consequence, ordinary course errors or omissions may also result in liability. New billing systems, new medical procedures and procedures for which there is not clear guidance from CMS or other regulatory authorities may all result in liability under federal false claim prohibitions, including the

False Claims Act and other similar laws. These penalties may be material or adverse and could include criminal or civil liability for making false claims and/or exclusion from participation in the Medicare program.

The False Claims Act provides that a private individual may bring a civil action on behalf of the United States government. These actions are referred to as *Qui Tam* actions. In this way, a hospital employee would be able to sue on behalf of the U.S. government if he/she believes that the hospital has committed fraud. If the government proceeds with an action brought by this individual, then he/she could receive as much as 25 percent of any money recovered. The potential exists that Qui Tam action could be brought against any hospital.

(ii) "Self-Referral" Prohibitions. The Omnibus Budget Reconciliation Act of 1993 (the "1993 Budget Act"), expanded the scope of provisions originally enacted in 1989 (commonly referred to as the "Stark Law") and specifically prohibits any physician having a "financial relationship" with an entity from making a referral to that entity, and prohibits the entity from billing the Medicare (or Medicaid) program for the furnishing of certain "designated health services" for which payment otherwise would be obtained under the Medicare or Medicaid programs (unless that relationship meets an exception). Violations may result in exclusion from the Medicare and Medicaid programs, denial of payment, refund of payments received or fines of up to $15,000 per service or $100,000 per financial relationship. The Borrower has various relationships with physicians that may be characterized as "financial relationships" under the Stark Law. In May of 1995, CMS published final regulations to the Stark provisions which relate to referrals for clinical laboratory services. On January 9, 1998, CMS published a proposed regulation interpreting the Stark provisions as they relate to other designated health services and, on January 4, 2001, published Phase I of a final regulation concerning the same. Phase I covers the general prohibition on certain referrals, the general exemption to both the ownership and compensation arrangement prohibition, and related definitions. Due to the many changes in Phase I from the proposed regulation, CMS has delayed its effective date for one year. CMS intends to issue Phase II of the final regulations covering the remainder of the Stark law regulations "shortly." In many cases the final regulations change prior interpretations of the Stark law.

(iii) Civil Monetary Penalties Law and Other Federal Fraud Provisions. Under the Civil Monetary Penalties Law of the Social Security Act (the "CMP Law"), civil monetary penalties may be imposed against any person who knowingly presents or causes to be presented a claim (i) for items or services not provided as claimed (including coding), (ii) that is false or fraudulent, (iii) for services provided by an unlicensed or uncertified physician, (iv) for items or services provided by an excluded person, or (v) for items or services that are not medically necessary. Penalties include up to $10,000 for each item or service claims plus an assessment of up to three times the amount claimed for each such item of service. The CMP Law applies to all federal healthcare programs.

Enforcement activity in this area appears to be increasing, and enforcement authorities may be adopting more aggressive approaches. In the current regulatory climate, it should be expected that many hospitals and physician groups will be subject to an investigation or inquiry regarding billing practices and false claims.

Enforcement authorities are in a position to compel settlements by providers charged with false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments, and/or by threatening criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement.

In addition to the CMP provisions, and those of the BBA discussed above, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established a variety of provisions designed to control fraud and abuse in the government programs and to strengthen enforcement capabilities. HIPAA created new health care crimes, expanded the Medicare and Medicaid exclusion provisions to provide reciprocal exclusion of entities and individuals with ownership or controlling interest in such entities and increased civil monetary penalties for a variety of actions.

HIPAA also expanded the scope of certain of these criminal provisions to cover non-governmental health care benefit programs, including private, non-governmental payors such as insurance companies, health maintenance organizations and self-funded employer plans. Under HIPAA, it is illegal to: (i) defraud any such health care benefit program; (ii) obtain by false or fraudulent pretense money from any such health care benefit program; or (iii) make materially false or fraudulent statements or representations in connection with the delivery of or payment for health

care benefits or services through or by such a health care benefit program. Penalties for violation of these criminal provisions include substantial fines and forfeiture of property traceable, directly or indirectly, to the violation. Routine functions of the Borrower, such as submitting billings to insurance companies, HMOs or self-funded employer plans for reimbursement with respect to health care services provided could give rise to allegations that these criminal provisions have been violated.

Medicaid

General. Medicaid (Title XIX of the federal Social Security Act) is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. Through the Medicaid program the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to hospitals in an amount determined in accordance with procedures and standards established by state law under federal guidelines. The BBA added language to the Social Security Act that permits states to restrict choice of insurer by offering a choice between at least two managed care organizations or Primary Care Case Managers. CMS approval of all managed care organization contracts under the BBA is still required for these programs before federal financial participation and payments may be made under such contracts. In addition to existing requirements, these contracts are subject to new provisions contained in the BBA, including increased beneficiary protections, quality assurance and timely payment requirements.

Fiscal considerations of both federal and state governments in establishing their budgets will directly affect the funds available to providers for payment of services rendered to Medicaid beneficiaries. Currently Medicaid nursing facility payments are generally made using one of three payment systems (that is, cost based, per diem or case mix). There is a greater use of prospective payment systems (per diem or case mix) than cost-based systems for nursing facility services. In addition, Medicaid inpatient hospital payments are generally made under a DRG prospective payment system on a per discharge basis. Although the payment systems can be categorized in general terms, the specific methodology varies from state to state.

Medicaid payments constituted approximately 9.6% of the Borrower's patient revenues in 2005.

Since a portion of the Medicaid program's costs in Indiana are paid by the State, the absolute level of Medicaid revenues paid to the Borrower, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State. The actions the State could take to reduce Medicaid expenditures to accommodate any budgetary shortfalls include, but are not limited to, changes in the method of payment to hospitals, changes in eligibility requirements for Medicaid recipients and delays of payments due to hospitals. Any such material action taken by the State could have a material adverse effect upon the operations and financial results of the Borrower and any future member of the Obligated Group.

The Indiana Family and Social Services Administration ("FSSA") is the designated agency responsible for administering Medicaid in the State of Indiana.

Inpatient Hospital Services. Since November 4, 1994, the Indiana Medicaid program has made payments to hospitals using a DRG system that bases payments on patient discharges. Previously, the Indiana Medicaid program reimbursed hospitals for inpatient services on the basis of the hospital's reasonable costs, as determined under Medicare cost reimbursement principles, and limited such reimbursement by allowing increases in the per discharge target rates based upon certain fiscal year inflationary adjustment percentages.

Certain Indiana hospitals that serve a disproportionate share of Medicaid and low-income patients may be eligible to receive "disproportionate share payment" ("DSH"), as well as indigent care payments. Indiana has two DSH programs, a basic program and an enhanced program. A hospital can become eligible to receive DSH payments under the basic program, based upon its Medicaid and low-income patient utilization. The enhanced disproportionate share adjustment provides additional funds to eligible hospitals based upon their Medicaid discharges and patient days. Indigent care payments provide funds for the treatment of eligible individuals based upon each inpatient day.

Outpatient Hospital Services. Since March 1, 1994, the Indiana Medicaid Program adopted a rule establishing an outpatient payment system that reimburses hospitals based upon established fee schedule allowances and rates for surgery groups. Previously, outpatient reimbursement was made on a prospective reimbursement methodology providing a predetermined percentage based upon an aggregate "cost-to-charge" ratio, with no year-end costs settlement. Consequently, no assurance can be given that Medicaid payments received or to be received by the Borrower will be sufficient to cover costs for inpatient and outpatient services, debt service obligations or other expenses otherwise eligible for reimbursement.

Federal and State Legislation

The Borrower is subject to a wide variety of federal regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare and Medicaid programs and other third party payors, and actions by, among others, the Department of Health and Human Services, the Internal Revenue Service, the Office of the Inspector General, the National Labor Relations Board, the Joint Commission on the Accreditation of Healthcare Organizations, the American Osteopathic Association and other federal, state and local governmental agencies. There can be no assurance that such agencies and legislative bodies may not make regulatory or legislative policy changes that could produce adverse effects upon the ability of the Borrower to generate revenues or upon the utilization of its health facilities.

Wide variations of bills and regulations proposing to regulate, control or alter the method of financing healthcare costs are often proposed and introduced in Congress, state legislatures and regulatory agencies. Legislation or regulatory actions have been enacted, proposed or discussed which would, among other things:

- Condition the use of tax-exempt financing and the receipt of certain Medicare funding on hospital acceptance of Medicaid patients;
- Condition tax exemption on furnishing a full-time emergency room and deny tax exemption for any period of time during which a hospital's Medicare provider agreement is terminated or suspended due to a violation of the emergency medical screening and transfer requirements;
- Condition tax exemption on provision of certain levels of charity care;
- Set new standards for medical staff peer review, potentially increasing hospital exposure to litigation and/or liability regarding medical staff disputes;
- Prohibit many hospital-physician joint business ventures which are typical of the healthcare industry, and limit the permissibility of many other hospital-physician employment, contractual and business relationships;
- Effectively reintroduce a new federally mandated health planning process through which capital improvements would require more extensive government approval;
- Prohibit patient referral arrangements for items or services between physicians and providers in which referring physicians have certain financial interests;
- Increase the probability of labor union organization and activity in the healthcare industry;
- Restrict rate increases by private hospitals;
- Shift funding for Medicaid to block grants to the states; and
- Impose provider taxes on hospitals at the federal level or in one or more states.

Because of the many possible financial effects that could result from enactment of any bills or regulatory actions proposing to regulate the healthcare industry, it is not possible to predict with assurance the effect on the business of the Borrower of such bills or regulatory actions.

HIPAA Administrative Simplification Provisions

HIPPA mandates the adoption of standards for the exchange of electronic health information in an effort to encourage overall administrative simplification and enhance the effectiveness and efficiency of the health care industry. The administrative simplification provisions of HIPAA will bring about significant and costly changes in health care. These provisions require new security measures, set standards for electronic signatures, standardize a method for identifying providers, employers, health plans and patients, require that the health care industry utilize the most efficient method to codify data and significantly change the manner in which hospitals communicate with payers.

The Secretary of HHS has issued final regulations addressing the confidentiality of individuals' health information that require health care organizations to be fully compliant with the new privacy rules by April 2003. Sanctions for failure to comply with HIPAA include criminal penalties and civil sanctions. In addition, health care organizations must comply with a final regulation mandating the use of standard electronic transactions to communicate health data by October 2002.

The Borrower is evaluating the effect of HIPAA and believes that it will be able to comply with the new privacy measures. However, it is unable at this time to estimate the cost of such compliance.

State Health Plans and Insurers

Certain private insurance companies contract with hospitals on an "exclusive" or a "preferred" provider basis, and some insurers have introduced plans known as "preferred provider organizations" ("PPOs"). Under such plans, there may be financial incentives for subscribers to use only those hospitals which contract with the plans. Under an exclusive provider plan, which includes most health maintenance organizations ("HMOs"), private payors limit coverage to those services provided by selected hospitals. With this contracting authority, private payors may direct patients away from unselected hospitals by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. Many healthcare providers, including the Borrower, do not have accurate information about their actual costs of providing specific types of care, particularly since each patient presents a different mix of services and length of stay. Consequently, the discounts offered to HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Therefore, the future financial consequences of such contracts may be unknown and their effect on the financial condition of the Borrower may be different in the future than that reflected in the consolidated financial statements set forth herein.

Some HMOs offer and mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO's enrollees. In some cases, the capitated payment covers total patient care provided, including the physician's component. If payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care, the financial condition of the hospital may erode rapidly and significantly. Often, HMO or PPO contracts are enforceable for a stated term, regardless of provider losses. Furthermore, HMO contracts may contain a requirement that the hospital care for HMO enrollees for a certain period of time regardless of whether the HMO has funds to make payment to the hospital.

The Borrower currently has contracts with HMOs, PPOs and other managed care providers. There is no assurance that the Borrower will maintain such contracts or obtain other similar contracts in the future. Failure to maintain such PPO and HMO contracts could have the effect of reducing the patient base or gross revenues of the Borrower. Conversely, participation may maintain or increase the patient base, but may result in reduced payment

and lower net income to the Borrower. Furthermore, the effect of such contracts on the consolidated financial statements of the Borrower may be different in the future than that reflected in the consolidated financial statements for the current period.

Individual managed care contracts will account for a significant portion of the gross revenues of the Borrower. Termination, or expiration without renewal, of such contracts would have a material adverse impact on the financial condition of the Borrower. There can be no assurances that such contracts will be renewed by the respective managed care providers upon expiration or not terminated prior to expiration.

Increasingly, physician practice groups, independent practice associations and other physician management companies have become a part of the process of negotiating payment rates to hospitals by private insurers and health plans. This involvement has taken many forms but typically increases the competition for limited payment resources from private insurers and health plans.

Integrated Delivery Systems

Many hospitals and health systems, including the Borrower, are pursuing strategies with physicians that may be capital intensive and that may create certain business and legal liabilities for the related hospital or health system. Such integration strategies take many forms, including medical service organizations (MSOs") or physician-hospital organizations ("PHOs"), which may provide a combination of financial and managed care contracting, and facilities and equipment to groups of physicians. Other integration structures include hospital-based clinics or medical practice foundations, which may purchase and operate physician practices, as well as provide all administrative services to physicians.

Often the start-up funding for such developments, as well as operational deficits, may be capitalized by the sponsoring hospital or health system. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. In some cases, the sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity which is carrying out an integrated delivery strategy. In certain of these structures, the sponsoring hospital or health system may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis.

These types of integrated delivery developments are generally designed to conform to existing trends in the delivery of medicine, to implement anticipated aspects of healthcare reform, to increase physician availability to the community and/or enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not be achieved, and, if the development is not functionally successful, it may produce materially adverse results that are counterproductive to some or all of the above-stated goals.

All such integrated delivery developments carry with them the potential for legal or regulatory risks in varying degrees. Such developments may call into question compliance with the Medicare Anti-Kickback or Stark laws (collectively, the "anti-referral laws") and relevant antitrust laws (discussed above under "Medicare" and below under "Antitrust"). Questions of federal or state tax exemption may arise in certain types of developments or as a result of formation, operation or future modification of such developments. MSOs which operate at a deficit over an extended period of time may raise significant risks of investigation or challenge regarding tax-exemption or compliance with the Medicare anti-referral laws. In addition, depending on the type of development, a wide range of governmental billing and reimbursement issues may arise, including questions of the authorization of the entity to bill for or on behalf of the physicians involved. Other related legal and regulatory risks may arise, including employment, pension and benefits, and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding healthcare and medical practice. There can be no assurance that such issues and risks will not lead to material adverse consequences in the future.

State Laws

States, including the State of Indiana, are increasingly regulating the delivery of health care services in response to the federal government's failure to adopt comprehensive health care reform measures. Much of this

increased regulation has centered around the managed care industry. State legislatures have cited their right and obligation to regulate and oversee health care insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. In the last two years alone, a number of states have enacted laws mandating a minimum of forty-eight hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions which prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the Borrower could be subject to a variety of state health care laws and regulations, affecting both managed care organizations and health care providers. In addition, the Borrower could be subject to state laws and regulations prohibiting, restricting or otherwise governing preferred provider organizations, third party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine"; selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

In the event that the Borrower engages in businesses subject to such laws, the Borrower may be required to comply with these laws or to seek appropriate licenses or other authorizations. Such requirements may impose operational, financial and legal burdens, costs or risks on the Borrower.

Antitrust

Enforcement of the antitrust laws against healthcare providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities and certain pricing or salary setting activities, as well as other areas of activity. In some respects, the application of the federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. Violation of the antitrust laws could be subject to criminal and/or civil enforcement by federal and state agencies, as well as by private litigants. At various times, the Borrower may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, division of services and use of a hospital's local market power for entry into related healthcare businesses. From time to time, the Borrower may or will be involved with all of these types of activities, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, the Borrower may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time. A recent U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals and seek treble damages. Hospitals regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may therefore incur a financial obligation with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary healthcare businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case.

The Borrower will work with, rely upon and sometimes invest in medical groups or medical group management companies. If any of these medical groups or management companies is determined to have violated the antitrust laws, the Borrower also may be subject to liability as a joint actor, or the value of any investment in such group or company may be affected.

Changes in Health Care Delivery

General. Efforts by health insurers and governmental agencies to limit the cost of hospital service and to reduce utilization of hospital facilities may reduce future revenues. Through various combinations of changes in governmental policy, advances in technology and treatment, increased costs of operations, increased charges, changes in payment methodology, utilization review, and greater competition, inpatient hospitalizations have generally decreased over the past five years. It is uncertain whether that decrease will continue, and to what extent the factors mentioned above will continue to create operational and economic uncertainty for hospitals in the United States. It is now generally acknowledged that hospital operations pose greater complexity and higher risk than in years past, and this trend may continue. It is not practical to enumerate each and every operating risk which may result from hospital operations, and certain risks or combinations of risks which are now unanticipated may have material adverse results in the future. Certain risks relating to hospital operations are enumerated below.

Labor Relations. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trades.

Physician Contracting and Relations. The Borrower expects to enter into a wide variety of relationships with physicians. Many of these relationships may be of material importance to the operations of the facilities operated by the Borrower, and, in an increasingly complex legal and regulatory environment, these relationships pose a variety of legal or business risks. Increasingly, the focus of these relationships is a physician practice group or independent practice association that concentrates a large number of physicians in a limited number of contracting organizations. This increases the importance of these contracts and increases the risk of the loss of one or more such contracts.

The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have such membership or privileges curtailed, denied or revoked, often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. All hospitals, including the Borrower, are subject to such risks.

Certain contracts between hospitals and physicians may be void or voidable by challenge from one of its participants in situations where a hospital exercises certain aspects of control over a physician's practice or where the physician is in a position to refer patients to the hospital and is compensated based on a percentage of revenues formula. In many cases, the determination of the validity of such agreements and the materiality of their loss is dependent on factual circumstances and on the relative position of the parties at a particular time. Consequently, the outcome cannot be determined with precision in advance of a dispute or controversy with respect to the relationship.

Certain contracts entered into with physicians or physician groups create an exclusive relationship. With increased competition among healthcare providers and the increasing frequency of the application of antitrust principles in healthcare, such exclusive relationships are subject to challenge, generally by other physicians competing with those who have the exclusive relationship. Absent facts which may arise from a specific challenge or controversy, the validity of such agreements cannot in many cases be accurately determined, nor can the materiality of the loss of the exclusive relationship to a hospital or the damages, if any, which might be assessed against the parties to it. The Borrower may have exclusive relationships of the type described. As of the date hereof, the Borrower is not aware of specific controversies which such management believes might lead to the loss of an exclusive contractual relationship, or to an award of damages, that would be material with respect to the operation or financial condition of the Borrower.

Technology and Services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient healthcare delivery may reduce utilization and revenues of the Borrower in the future. Technological advances in recent years have accelerated the trend toward

the use by hospitals of sophisticated, and costly, equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the Borrower to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance such acquisitions or operations.

Competition. Increased competition from a wide variety of potential sources, including, but not limited to, other hospitals, inpatient and outpatient healthcare facilities, clinics, physicians and others, could adversely affect the utilization and/or revenues of the Borrower. Existing and potential competitors may not be subject to various restrictions applicable to the Borrower, and competition may, in the future, arise from new sources not currently anticipated or prevalent.

Licensing, Surveys, Investigations and Audits

Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors and the Joint Commission on Accreditation of Healthcare Organizations and the American Osteopathic Association. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Borrower. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could result in a loss or reduction in the scope of licensure, certification or accreditation of the Borrower, or could reduce the payment received or require repayment of amounts previously remitted.

Environmental Laws and Regulations

Healthcare providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, provider operations or facilities and properties owned or operated by providers. Among the types of regulatory requirements faced by healthcare providers are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the provider; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements.

In their role as owners and/or operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that have come to be located on hospital property, including any such substances that may have migrated off the property. Typical healthcare provider operations include, but are not limited to, in various combinations, the handling, use, treatment, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive and flammable materials, wastes, pollutants or contaminants. As such, healthcare provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Borrower will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Borrower.

Affiliation, Merger, Acquisition and Divestiture

Significant numbers of affiliations, mergers, acquisitions and divestitures have occurred in the health care industry recently. As part of its on-going planning process, the Borrower has explored, and continues to explore, opportunities for horizontal and vertical integration.

Risks Related to Tax-Exempt Status

The tax-exempt status of the Series 2006A Bonds is based on the continued compliance by the Authority, the Borrower and users of property financed or refinanced with proceeds of the Series 2006A Bonds with certain covenants relating generally to restrictions on use of the facilities of the Borrower, arbitrage limitations, rebate of certain excess investment earnings to the federal government and restrictions on the amount of issuance costs financed with the proceeds of the Series 2006A Bonds. Failure to comply with such covenants could cause interest on the Series 2006A Bonds to become subject to federal income taxation retroactive to the date of issue of the Series 2006A Bonds. In such event, the Series 2006A Bonds are not subject to redemption solely as a consequence thereof, although the principal thereof may be accelerated. No additional interest is payable in the event of the taxability of interest on the Series 2006A Bonds.

Termination of Managed Care Contracts

Certain health maintenance and preferred provider organization contracts account for more than 5% of the revenue and/or admissions of the Borrower. Some of these contracts can be terminated by the third-party payor at any time without the necessity of showing cause upon as little as 90 days' prior written notice. These contracts may also be terminated by the Borrower as part of its managed care strategy. Termination could have an adverse effect on the financial performance of the Borrower.

Financial Information

The financial information in this Official Statement, including the financial statements in APPENDIX B, includes information about the Borrower and its affiliates. Upon issuance of the Series 2006A Bonds, the Borrower will be the only member of the Obligated Group.

Other Risk Factors

The following factors, among others, may also affect the future operations or financial performance of the Borrower:

(a) Development of health maintenance organizations or preferred provider organizations, and requirements of labor contracts, legislation, regulations or employers encouraging or requiring the use of such organizations as an alternative to the use of the Borrower and like institutions for the delivery of health care services;

(b) Formation of insurance company or HMO-dominated managed care companies with the market power to extract price concessions;

(c) Medical and other scientific advances resulting in decreased usage of hospital facilities or services, including those of the Borrower;

(d) Competition from other hospitals located within and outside of the Borrower's primary and secondary service areas, from other types of health care providers that may offer comparable health care services, and from alternative or substitute health care delivery systems or programs;

(e) Cost increases without corresponding increases in revenue which could result from, among other factors, increases in the salaries, wages, and fringe benefits of hospital employees, increases in costs associated with advances in medical technology or with inflation, or future legislation which would prevent or limit the ability of the Borrower to increase revenues;

(f) Any termination or alteration of existing agreements between the Borrower and individual physicians and physician groups who render services to the patients of the Borrower;

(g) Any termination or alteration of referral patterns by individual physicians and physician groups who render services to the patients of the Borrower with whom the Borrower does not have contractual arrangements;

(h) Future contract negotiations between public and private insurers and participating hospitals, including the Borrower, and other efforts of these insurers and of employers to limit hospitalization costs and coverage;

(i) Future legislation and regulations affecting hospitals, governmental medical insurance and the health care industry in general;

(j) Limitations on the availability of nursing, technical and other professional personnel;

(k) Decreases in population within the service areas of the Borrower's health care facilities;

(l) Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care;

(m) Increased efforts by insurers and governmental agencies to limit the cost of hospital services (including, without limitation, the implementation of a system of prospective review of hospital rate changes and implementation of negotiated rates), to reduce the number of hospital beds and to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety, and outpatient care;

(n) Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970s;

(o) The ability of, and the cost to, the Borrower to continue to insure or otherwise protect itself against malpractice claims;

(p) The cost and effect of any future unionization of employees of the Borrower; and

(q) Labor shortages.

The occurrence of one or more of the foregoing, or the occurrence of other unanticipated events, could adversely affect the financial performance of the Borrower.

Bond Rating

There is no assurance that the rating assigned to the Series 2006A Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Series 2006A Bonds. See "RATING."

Market for Series 2006A Bonds

Subject to prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2006A Bonds. There is presently no secondary market for the Series 2006A Bonds and no assurance that a secondary market will develop. Consequently, investors may not be able to resell the Series 2006A Bonds purchased should they need or wish to do so for emergency or other purposes.

Labor Relations

At the present time, none of the Borrower's employees are members of unions or receive union wages and benefits. Unionization of employees or a shortage of qualified professional personnel could cause an increase in

payroll costs beyond those projected. The Borrower cannot control the prevailing wage rates in its service area and any increase in such rates will directly affect the costs of its operations.

Additional Indebtedness

Under certain circumstances, the Borrower and any future Obligated Issuers may incur additional Indebtedness. See "SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—Restrictions as to Incurrence of Additional Indebtedness" in APPENDIX C.

Certain Matters Relating to Security for Series 2006A Bonds

The facilities of the Borrower are not pledged as security for the Series 2006A Bonds.

Certain amendments to the Bond Indenture may be made with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding Series 2006A Bonds and certain amendments to the Master Indenture may be made with the consent of the holders of not less than a majority in aggregate principal amount of outstanding Series 2006A Notes under the Master Indenture. Such amendments may adversely affect the security for the Series 2006A Bonds and, with respect to amendments to the Master Indenture, the holders of the requisite percentage of outstanding Notes may be composed wholly or partially of the holders of Notes hereafter issued.

Enforceability of Remedies

The enforceability of the rights and remedies of the Bond Trustee and the Master Trustee or the Series 2006A Bondholders under the Bond Indenture, the Loan Agreement, the Master Indenture, the Series 2006A Supplemental Indenture and Series 2006A Note, and the availability of rights and remedies to any party seeking to enforce any security interest thereunder, are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the rights and remedies provided in the Series 2006A Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture, the Series 2006A Supplemental Indenture and the Series 2006A Note, and the rights and remedies of any party seeking to enforce any mortgage or security interest thereunder, may not be readily available or may be limited.

The various legal opinions to be delivered concurrently with the delivery of the Series 2006A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the State and the United States of America and bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). The exceptions would encompass any exercise of federal, State or local police powers (including the police powers of the Authority and the State), in a manner consistent with the public health and welfare. Enforceability of Series 2006A Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture, the Series 2006A Supplemental Indenture and the Series 2006A Note, and availability of rights and remedies to any party seeking to enforce any security interest thereunder, in a situation where such enforcement or availability may adversely affect public health or welfare may be subject to these police powers.

The provisions of the Master Indenture pursuant to which each Obligated Issuer guarantees the payment of any and all amounts due under any Note if such payments are not promptly paid by the applicable Obligated Issuer may not be enforceable if such payments: (a) are required with respect to payments of any Note which was issued for a purpose which is not consistent with the charitable purpose of the Obligated Issuer from which such payment is required; (b) are required to be made from any property of the Obligated Issuer from which such payment is required which is donor restricted or which is subject to a direct or express trust which does not permit the use of such property for such payment; or (c) would result in a cessation or discontinuance of any material portion of the health care or related services previously provided by the Obligated Issuer from which such payment is required.

There is no clear precedent in the law as to whether such payments by an Obligated Issuer pursuant to the guaranty provisions of the Master Indenture may be voided by a trustee in bankruptcy in the event of a bankruptcy of such Obligated Issuer or by third party creditors in an action brought pursuant to the fraudulent conveyance laws. Under the United States Bankruptcy Code, as amended, a trustee in bankruptcy and, under the Indiana fraudulent conveyances statute, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (ii) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code, as amended, or the Indiana fraudulent conveyances statute, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force an Obligated Issuer other than the Borrower to make payment under the guaranty, a court might not enforce such a payment in the event it is determined that sufficient consideration for the guaranty was not received or that the incurrence of such an obligation has rendered and will render the Obligated Issuer insolvent**.**

Potential Effects of Bankruptcy

If the Borrower or any future Obligated Issuer were to file a petition for relief (or if a petition were filed against the Borrower or such Obligated Issuer) under the Federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Borrower or such Obligated Issuer, and its property. If the bankruptcy court so ordered, the Borrower's or such Obligated Issuer's property, including its accounts receivable and proceeds thereof, could be used for the benefit of the Borrower or such Obligated Issuer despite the claims of its creditors.

In a bankruptcy proceeding, the Borrower or such Obligated Issuer could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or the rights of any class of creditors, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the debtor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

The Borrower is a body corporate and politic of the State of Indiana. If an event of default occurs under the Loan Agreement, the Series 2006A Note, the Master Indenture or the Series 2006A Supplemental Indenture, the liquidation and seizure of the Hospital to pay a money judgment may not be permitted by a court.

LITIGATION

Authority

To the knowledge of the Authority, there is not now pending or threatened any litigation restraining or enjoining the issuance or delivery of the Series 2006A Bonds or questioning or affecting the validity of the Series 2006A Bonds or the proceedings or authority under which they are to be issued. Neither the creation, organization or existence of the Authority nor the title of any of the present members or other officers of the Authority to their respective offices, is being contested. There is no litigation pending or, to its knowledge, threatened which in any manner questions the right of the Authority to enter into the Bond Indenture with the Bond Trustee or the Loan Agreement with the Borrower or to secure the Series 2006A Bonds in the manner provided in the Bond Indenture and the Act.

Borrower

There is not now pending or, to the knowledge of the Borrower, threatened any litigation against it except (i) litigation arising in the normal course of their operations and in which the probable recoveries and estimated

costs and expenses of defense, in the opinion of counsel to the Borrower, will be entirely within applicable policy limits (subject to deductibles), or (ii) litigation in which, in the opinion of counsel to the Borrower, an adverse determination would not have a materially adverse effect on the operations or condition, financial, or otherwise, of the Borrower.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Series 2006A Bonds by the Authority are subject to the approval of Barnes & Thornburg LLP, Bond Counsel, Indianapolis, Indiana. Barnes & Thornburg LLP will render a further opinion that the Series 2006A Bonds, the Bond Indenture, the Master Indenture and the Loan Agreement conform as to form and tenor with the terms and provisions thereof as summarized in this Official Statement. Barnes & Thornburg LLP has not been requested to review any information contained in this Official Statement other than the information contained under the captions "SERIES 2006A BONDS," "SECURITY AND SOURCE OF PAYMENT," "AMORTIZABLE BOND PREMIUM," "TAX MATTERS," "APPENDIX C—SUMMARY OF PRINCIPAL DOCUMENTS" and "APPENDIX D—FORM OF OPINION OF BOND COUNSEL." Certain matters will be passed upon for the Authority by its counsel, the Attorney General of the State of Indiana, Indianapolis, Indiana, for the Borrower by its general counsel, Montgomery, Elsner & Pardieck, Seymour, Indiana, and for the Underwriters by their counsel, Krieg DeVault LLP, Indianapolis, Indiana.

TAX MATTERS

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2006A Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2006A Bonds (the "Code"). The opinion of Barnes & Thornburg LLP is based on certain certifications, covenants and representations of the Authority and the Borrower and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg, LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Series 2006A Bonds is exempt from income taxation in the State of Indiana for all purposes except the State financial institutions tax. See Appendix D for the form of opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2006A Bonds as a condition to the excludability of the interest on the Series 2006A Bonds from gross income for federal income tax purposes. Noncompliance with such requirements may cause interest on the Series 2006A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issue, regardless of the date on which noncompliance occurs. Should the Series 2006A Bonds bear interest that is not excludable from gross income for federal income tax purposes, the market value of the Series 2006A Bonds would be materially and adversely affected.

The interest on the Series 2006A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2006A Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

The Series 2006A Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Series 2006A Bonds is excludable from gross income for federal income tax purposes and exempt from State income tax, the accrual or receipt of interest on the Series 2006A Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of

income or deduction. Prospective purchasers of the Series 2006A Bonds should consult their own tax advisors with regard to the other tax consequences of owning the Series 2006A Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Series 2006A Bonds. Prospective purchasers of the Series 2006A Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Series 2006A Bonds.

AMORTIZABLE BOND PREMIUM

The initial offering price of the Series 2006A Bonds maturing on February 15, 2030, and bearing interest at a rate of 5.25% per annum, and the Series 2006A Bonds maturing on February 15, 2036 (collectively, the "Premium Bonds"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth at Section l7l(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but the amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

RATINGS

Standard & Poor's Ratings Services and Fitch Ratings have assigned ratings of "A-" and "A-" respectively, to the Series 2006A Bonds. The ratings and an explanation of their significance may be obtained from the rating agency furnishing such rating. Such ratings reflect only the respective views of the rating agencies.

The Borrower has furnished the rating agencies with certain information and materials relating to the Series 2006A Bonds and the Borrower that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Except as set forth below under "CONTINUING DISCLOSURE," neither the Authority, the Underwriters nor the Borrower has undertaken any responsibility to bring to the attention of the holders of the Series 2006A Bonds any proposed revision or withdrawal of the rating of the Series 2006A Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2006A Bonds.

FINANCIAL STATEMENTS

The financial statements of the Borrower included in APPENDIX B to this Official Statement, to the extent and for the periods indicated in their reports, have been audited by Blue & Co., whose reports appear in APPENDIX B. Such financial statements have been included herein in reliance upon the reports of Blue & Co., given upon their authority as experts in accounting and auditing.

CONTINUING DISCLOSURE

The Borrower will enter into a Continuing Disclosure Undertaking Agreement, dated the date of delivery of the Series 2006A Bonds (the "Undertaking") with The Bank of New York Trust Company, N.A., as counterparty and as dissemination agent (the "Dissemination Agent") for purposes of complying with the continuing disclosure requirements of Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC"). Pursuant to the Undertaking:

(a) The Borrower will, or will cause the Dissemination Agent to, not later than 180 days after the end of the Borrower's fiscal year, commencing with the fiscal year ending December 31, 2006, provide to each nationally recognized municipal securities information repository ("NRMSIR") and to an appropriate state information depository designated by the State of Indiana, if any, ("SID") the following financial information and operating data (the "Annual Information"):

(i) the consolidated audited financial statements of the Borrower for each fiscal year of the Borrower together with the independent auditor's report and all notes thereto; and

(ii) the consolidated annual financial information for the Borrower for such fiscal year, other than the audited financial statements described in (i) above, including consolidated unaudited financial statements of the Borrower (excluding any demographic information or forecasts) of the general type as described under the caption "UTILIZATION STATISTICS AND SUMMARY FINANCIAL INFORMATION," excluding, however, all pro forma financial information and information under the subcaption "Management Discussion of Financial Performance," appearing in APPENDIX A hereto.

Not later than 15 business days prior to the date specified in the preceding paragraph for providing the Annual Information to the NRMSIRs and the SID, the Borrower shall: (1) provide the Annual Information to the Dissemination Agent, with written instructions to file the Annual Information as specified in above, or (2) shall provide written notice to the Dissemination Agent that the Borrower has provided the Annual Information to the NRMSIRs and the SID.

(b) The Borrower will, or will cause the Dissemination Agent to, not later than 60 days after the end of each fiscal quarter of the Borrower, commencing with the quarter ending September 30, 2006, provide to each NRMSIR and to the SID the following financial information and operating data (the "Quarterly Information"):

(i) a statement of revenues and expenses of the Borrower during such period, and a balance sheet as of the end of each such fiscal quarter; and

(ii) updates as of the end of the fiscal quarter of certain operating data contained in APPENDIX A hereto, as follows—

Utilization Statistics
Sources of Patient Revenue.

(c) The Borrower will give, in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID notice of the occurrence of any of the following events with respect to the Series 2006A Bonds, if such event is material (each, a "Material Event"): (a) principal and interest payment delinquencies; (b) non-payment related defaults; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Series 2006A Bonds; (g) modifications to the rights of holders of the Series 2006A Bonds; (h) unscheduled bond calls; (i) defeasance; (j) release, substitution or sale of property securing repayment of the Series 2006A Bonds; or (k) rating changes.

Whenever the Borrower obtains knowledge of the occurrence of a Material Event, the Borrower will promptly notify and instruct the Dissemination Agent in writing to report the occurrence. If the Dissemination Agent has been instructed by the Borrower to report the occurrence of a Material Event, the Dissemination Agent will promptly file a notice of such occurrence with each NRMSIR or the MSRB and the SID. Notwithstanding the foregoing, notice of Material Events described in (c) above need not be given any earlier than the notice (if any) of the underlying event is given to the owners of affected Series 2006A Bonds pursuant to the Bond Indenture.

The obligations of the Borrower described above will remain in effect only for such period that (i) the Series 2006A Bonds are outstanding in accordance with their terms and (ii) the Borrower remains an obligated person within the meaning of the Rule. The Borrower acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Series 2006A Bonds (including holders of beneficial interests in the Series 2006A Bonds).

UNDERWRITING

The Series 2006A Bonds are being purchased by the Underwriters. The Underwriters have agreed to purchase the Series 2006A Bonds at an aggregate purchase price of $15,204,794, which represents the par amount of $15,000,000, less the underwriters' discount of $90,000, plus original issue premium of $294,794, pursuant to a purchase contract entered into by and among the Authority, the Borrower and the Underwriters. Such purchase contract provides that the Underwriters will purchase all of the Series 2006A Bonds if any are purchased.

The Underwriters have agreed to make a bona fide public offering of all of the 2006A Bonds at prices not in excess of the initial public offering prices set forth or reflected on the cover page of this Official Statement. The Underwriters may sell the 2006A Bonds to certain dealers (including dealers depositing 2006A Bonds into investment trusts) and others at prices lower than the offering prices set forth on the cover page hereof.

MISCELLANEOUS

The references, excerpts, and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the Series 2006A Bonds, the security for the payment of the Series 2006A Bonds and the rights of the owners thereof. During the period of the offering, copies of drafts of such documents may be examined at the offices of the Underwriters. Following delivery of the Series 2006A Bonds, copies of such documents may be examined at the offices of the Bond Trustee.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinions or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information presented herein since the date hereof. This Official Statement is submitted in connection with the issuance and sale of the Series 2006A Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the Authority, the Borrower, the Bond Trustee or the Underwriters and the purchasers or owners of any Series 2006A Bonds. The delivery of this Official Statement has been duly authorized by the Authority and the Borrower.

The execution and delivery of this Official Statement dated May 16, 2006, has been duly authorized by the Authority and the Borrower

INDIANA HEALTH AND EDUCATIONAL FACILITY FINANCING AUTHORITY

By: /s/ Ryan C. Kitchell,
Vice Chair

This Official Statement is approved:

THE BOARD OF TRUSTEES OF JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL

By: /s/ Gary A. Meyer
President and Chief Executive Officer

ATTEST:

/s/ Warren L. Forgey
Vice President of Fiscal Services and Treasurer

APPENDIX A:
JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL

APPENDIX B:
FINANCIAL STATEMENTS

APPENDIX C:
SUMMARY OF PRINCIPAL DOCUMENTS

APPENDIX D:
FORM OF OPINION OF BOND COUNSEL